

**NEW ISSUE  
BOOK ENTRY ONLY**

**RATINGS:** Fitch Moody's Standard & Poor's  
The Notes: "F1+" "MIG 1" "SP-1+"  
(See "RATINGS" herein)

*In the opinion of Katten Muchin Rosenman LLP, and of Hurtado, S.C. Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Notes will not be includable in gross income for federal income tax purposes. The Notes are not "private activity bonds" and the interest thereon is not required to be included as an item of tax preference for purposes of computing individual or corporate "alternative minimum taxable income." However, interest on the Notes is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Notes is not exempt from Wisconsin income taxes.*

**\$175,000,000  
CITY OF MILWAUKEE, WISCONSIN  
SCHOOL REVENUE ANTICIPATION NOTES, SERIES 2006 M7  
(Not a general obligation of the City)**

**Dated:** Expected Date of Delivery

**Due:** August 30, 2007

The School Revenue Anticipation Notes, Series 2006 M7 (the "Notes") are issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in the principal amounts of \$5,000 or any integral multiple thereof and will be in book-entry-form only. Purchasers will not receive certificates representing their beneficial ownership in the Notes. Interest shall be payable at maturity. The Notes are not a general obligation of the City, do not constitute an indebtedness for the purpose of determining the City's constitutional debt limitation, and no tax shall be levied to pay the Notes or the interest thereon. The Notes are not subject to redemption prior to maturity.

<u>Amount</u>	<u>Rate</u>	<u>Yield</u>
\$25,000,000	4.50%	3.57%
150,000,000	4.50	NRO

The Notes are issued for the purpose of financing the Milwaukee Public School's general operating purposes pending receipt of school State Aid Payments from the State of Wisconsin (the "State"). School Operations Fund revenues have been pledged as security for the repayment on the Notes. In addition, the City has pledged available surplus revenues in its Debt Service Fund to the payment of interest due on the Notes at maturity. (See "THE NOTES – SECURITY AND PURPOSE" herein.)

The Notes have been offered for sale by competitive bid in accordance with the Official Notice of Sale dated August 1, 2006 and are being issued subject to the legal opinion of Katten Muchin Rosenman LLP, Chicago, Illinois, and of Hurtado, S.C., Wauwatosa, Wisconsin, Bond Counsel to the City, and other conditions specified in the Official Notice of Sale. Delivery of the Notes will be on or about August 30, 2006 (the "Expected Date of Delivery") in New York, New York.

*THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THIS ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.*

For Further Information Contact:

W. Martin Morics, City Comptroller and Secretary to Public Debt Commission  
City Hall, Room 404, 200 East Wells Street - Milwaukee, WI 53202 - Phone (414) 286-3321

August 10, 2006

*No dealer, broker, salesperson or other person has been authorized by the City of Milwaukee or Milwaukee Public Schools to give any information or to make any representation other than as contained in this Official Statement in connection with the sale of these securities and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities by a person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City of Milwaukee or Milwaukee Public Schools since the date hereof. The Notes have not been registered pursuant to the Securities Act of 1933, in reliance upon exemptions contained in such Act.*

*The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.*

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## INTRODUCTION TO THE OFFICIAL STATEMENT

The purpose of this Official Statement, including the cover page and appendices, is to set forth certain information concerning the City of Milwaukee (“City”), Milwaukee Public Schools (“MPS”) and the offering of \$175,000,000 School Revenue Anticipation Notes, Series 2006 M7 of the City dated the Expected Date of Delivery (the “Notes”).

*The following information is furnished solely to provide limited introductory information regarding the Notes and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including Appendices hereto.*

### SUMMARY STATEMENT

Issuer:	City of Milwaukee, Wisconsin.
Issue:	\$175,000,000 School Revenue Anticipation Notes, Series 2006 M7.
Dated Date:	Expected Date of Delivery.
Sale Date and Time:	August 10, 2006, 10:00 A.M. C.T.
Maturity:	August 30, 2007.
Principal Amount:	\$175,000,000
Interest:	Calculated at 360 days on a 360-day basis.
Denominations:	\$5,000 or integral multiples thereof.
Purpose:	To finance MPS operations on an interim basis pending receipt of school State Aid payments.
Security:	<p>MPS and the City have pledged and will irrevocably segregate upon receipt, school State Aid payments in an amount sufficient with interest thereon, to pay, when due, the principal of and interest on the Notes. MPS and the City have also pledged all other revenues of the School Operations Fund included in the budget for the current fiscal year which are due MPS, which have not been received as of the date of delivery of the Notes, and which are not otherwise pledged or assigned. The City has also pledged available surplus revenues of the City’s Debt Service Fund to the payment of interest on the Notes. (See “THE NOTES – SECURITY AND PURPOSE” herein.)</p> <p>The Notes are not a general obligation, do not constitute an indebtedness of the City for the purpose of determining the City’s constitutional debt limitation, and no tax shall be levied to pay the Notes or interest thereon.</p>
Authority for Issuance:	The City of Milwaukee Common Council and the Milwaukee Board of School Directors (“MBSD”) have authorized the issuance and sale of the Notes in accordance with the provisions of the City Charter and Section 67.12(1), Wisconsin Statutes.

Form of Issuance: The Notes will be issued in fully registered “Book-Entry-Form” in the name of Cede & Co., as nominee of The Depository Trust Company of New York, New York which will act as security depository for the Notes. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

Tax Exemption: Under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Notes will not be includable in gross income for federal income tax purposes. The Notes are not “private activity bonds” and the interest thereon is not required to be included as an item of tax preference for purposes of computing individual or corporate “alternative minimum taxable income.” However, interest on the Notes is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Notes is not exempt from Wisconsin income taxes. (See “TAX STATUS” herein)

Redemption Feature: The Notes are not subject to redemption prior to maturity.

Official Statement: The City will provide the original purchaser(s) of the Notes with up to 100 copies (pro rata) of this Official Statement within seven business days following the award of the Notes.

Professionals:

Bond Counsel:	Katten Muchin Rosenman LLP Chicago, Illinois
	Hurtado, S.C. Wauwatosa, Wisconsin
Financial Advisor	Robert W. Baird & Co. Milwaukee, Wisconsin
	Bagley Financial Corp. Detroit, Michigan
Fiscal Agent:	J.P. Morgan Chase New York, New York

Delivery: Delivery will be on or about August 30, 2006 (the “Expected Date of Delivery”) at the expense of the City, through the facilities of The Depository Trust Company (“DTC”), New York, New York.

Reoffering: The public reoffering price(s) and/or yield(s) of the Notes are detailed on the cover of the Final Official Statement.

Continuing Disclosure Certificate: In order to assist bidders in complying with the continuing disclosure requirements of SEC Rule 15c2-12 and as part of the City’s contractual obligation arising from its acceptance of the successful bidder’s proposal, at the time of the delivery of the Notes the City will provide an executed copy of its Continuing Disclosure Certificate. (See “RULE 15c2-12” and Appendix C-Form of Continuing Disclosure Certificate herein.)

## THE NOTES

### AUTHORITY

Pursuant to Sections 65.05 and 119.46 of the Wisconsin Statutes, the Milwaukee Board of School Directors ("MBSD"), the governing board of MPS, has full responsibility for its budget expenditures, and the required tax levy. These requirements are included with the City's financial requirements, and MPS is effectively treated as a department of the City.

Pursuant to a resolution adopted on June 29, 2006, MBSD has determined that it will be necessary to finance the operating budget of MPS on an interim basis, and has requested the City to issue notes pursuant to Section 67.12(1), Wisconsin Statutes, for that purpose.

The Common Council of the City has authorized the issuance and sale of the Notes through adoption of a resolution on July 12, 2006 in accordance with the provisions of the City Charter and Section 67.12(1), Wisconsin Statutes, which reads as follows:

**"67.12 Temporary borrowing and borrowing on promissory notes.**

(1) BORROWING IN ANTICIPATION OF REVENUES. (a) Except for school districts and vocational, technical and adult education districts, any municipality that becomes entitled to receive federal or state aids, taxes levied or other deferred payments may, in the same fiscal year it is entitled to receive the payments, issue municipal obligations in anticipation of receiving the payments. The municipal obligations issued under this paragraph shall not exceed 60% of the municipality's total actual and anticipated receipts in that fiscal year and shall be repaid no later than 18 months after the first day of that fiscal year.

(b) Any municipality may issue municipal obligations in anticipation of receiving proceeds from bonds or notes the municipality has authorized or covenanted to issue under this Chapter or from grants that are committed to the municipality. Any municipal obligation issued under this paragraph may be refunded one or more times. Such obligation and any refundings thereof shall be repaid within 5 years after the date of the original obligation.

(c) Any municipality that issues a municipal obligation under this subsection shall adopt a resolution indicating the amount and purpose of the obligation and the anticipated revenue to secure the obligation and may pledge or assign all or portions of the revenue due and not yet paid as security for repayment of the obligations. Municipal obligations issued under this subsection shall be executed as provided in s. 67.08(1), may be registered under s. 67.09, and do not constitute an indebtedness for the purpose of determining the municipality's constitutional debt limitation."

### SECURITY AND PURPOSE

Pursuant to a resolution of MBSD adopted on June 29, 2006, MBSD has authorized the City to issue the Notes, and to pledge all revenues of the School Operations Fund included in the budget for the current fiscal year which are due MPS, which have not been received as of the date of delivery of the Notes, and which are not otherwise pledged or assigned, as security for repayment of the Notes (the "Pledged Revenues").

The School Operations Fund is established by Section 119.46, Wisconsin Statutes, and is held by the City on behalf of MPS. Revenues from the local property tax, school State Aid payments and federal school aid payments are deposited into the School Operations Fund. See "REVENUES OF MILWAUKEE PUBLIC SCHOOLS" generally, and "Milwaukee Public Schools-School Operations Fund Budget Fiscal year 2007 and 2006" herein.

"State Aid" means the general school aids paid by the State to MPS pursuant to subchapter II of Chapter 121, Wisconsin Statutes, as the same may be amended or renumbered from time to time, or any other payments made directly or indirectly by the State to MPS in partial or full replacement or substitution for the school aid payments now made under subchapter II of Chapter 121, Wisconsin Statutes.

Pursuant to Chapter 121.115, Wisconsin Statutes, MBSD is anticipating receipt of school State Aid payments from the State of Wisconsin to the School Operations Fund in September and December, 2006 and in March and June, 2007. Such payments, per Section 119.50, Wisconsin Statutes, shall be received by the City Treasurer.

The Notes are being issued to fund MPS operations pending receipt of school State Aid payments. A cash flow deficit of approximately \$175 million is anticipated to occur in December 2006 due to the receipt of the majority of State Aid and property tax revenues during December 2006 through June 2007, the last seven months of the MPS fiscal year. In contrast, MPS expenditures are relatively evenly distributed throughout the school year (See "School Operations Fund Trends" herein).

This Note issue of \$175 million is the only anticipated interim borrowing for MPS during the 2006-2007 fiscal year. (See "MILWAUKEE PUBLIC SCHOOLS - Borrowing – Future Financing" herein.)

Pursuant to a resolution of the Common Council of the City adopted on July 12, 2006 (the "City Resolution"), the Common Council of the City has pledged the Pledged Revenues for the repayment of the Notes and has established a segregated account within the School Operations Fund to capture school State Aid payments received under Section 121.15, Wisconsin Statutes, in June, 2007 in the principal amount of the Notes. The City Resolution also directs the City Treasurer to segregate, for payment of the Notes, June, 2007 school State Aid payments, in the principal amount of the Notes. The City Treasurer has no discretion to otherwise apply such revenues.

The City has also covenanted to deposit by June 30, 2007, with the City's Fiscal Agent, segregated State Aid payments in an amount sufficient, with interest thereon, to pay, when due, the principal of and interest on the Notes.

The City has also pledged available surplus revenues in its Debt Service Fund to the payment of interest on the Notes.

## **MATURITY, INTEREST RATE(S) AND REDEMPTION**

The Notes are dated the Expected Date of Delivery and will mature on August 30, 2007 without option of prior redemption. Interest is payable at maturity at the rates as shown on the cover of this Official Statement and is calculated at 360 days on a 360 day basis.

## **STATUTORY BORROWING LIMITATIONS**

Section 67.12(1)(a) of the Wisconsin Statutes limits issuance for the purpose of the Notes to sixty percent (60%) of the Estimated School Operation Fund Revenues for 2006-2007 Fiscal Year.

Total Amount of Estimated School Operations Fund Revenues For the 2006-2007 Fiscal Year	\$935,059,049
Statutory Borrowing Limit (60% of Estimated Revenues)	\$ 561,035,429
Borrowing-School Revenue Anticipation Notes, Series 2006 M7, dated August 30, 2006	<u>\$175,000,000</u>
Unused Amount Following this Issue	<u>\$374,035,429</u>
Percentage of Borrowing Limit Used	33.3%
Percentage of Borrowing to Estimated Revenues	20.0%

# MILWAUKEE PUBLIC SCHOOLS

## GENERAL

MPS was established on February 3, 1846, and operates under Chapter 119 of the Wisconsin Statutes. MPS is effectively treated by State Statutes as a City department. MPS is governed by MBSD. MPS has budget adoption authority (the City must then levy and collect a tax to support the MBSD budget). MPS provides elementary, secondary, vocational and special education services for grades K through 12 to residents of the City, whose boundaries are coterminous with those of the MPS. All funds for MPS flow through the City Treasurer who, by statute, disburses them at the direction of the Director/Board Clerk of MBSD. The City Comptroller, City Treasurer and City Attorney perform their respective functions for MPS as well as the City.

## BORROWING - GENERAL OBLIGATION DEBT

MPS does not have authority to issue debt. The City has the authority (under Chapters 67 and 119, Wisconsin Statutes) to issue municipal obligations for specific school purposes including the acquisition of sites and constructing, enlarging and remodeling of school buildings for the purpose of providing additional classroom space to accommodate anticipated school enrollments. Such municipal obligations require the adoption of a resolution by the City and the levying by the City of required debt service. As shown below, as of August 1, 2006, the City had outstanding general obligation debt for school purposes of \$126,497,913. The City also has authorized but unissued general obligation debt for school purposes. (See "MILWAUKEE PUBLIC SCHOOLS - Borrowing - Future Financing" herein.)

### CITY OF MILWAUKEE OUTSTANDING GENERAL OBLIGATION DEBT FOR SCHOOL PURPOSES AS OF AUGUST 1, 2006

Year Ending December 31	Principal	Interest <sup>(1)</sup>	Total
2006	\$7,369,303	\$2,676,302	\$10,045,605
2007	11,451,029	5,065,502	16,516,531
2008	11,070,969	4,541,256	15,612,225
2009	9,889,807	4,024,286	13,914,093
2010	9,490,549	3,538,033	13,028,582
2011	9,100,758	3,056,127	12,156,885
2012	7,973,776	2,612,060	10,585,836
2013	7,350,472	2,205,097	9,555,569
2014	7,866,669	2,653,530	10,520,199
2015	7,309,211	2,897,329	10,206,539
2016	9,023,763	2,491,982	11,515,745
2017	7,106,724	2,791,419	9,898,142
2018	6,016,970	2,404,506	8,421,476
2019	5,875,678	2,923,997	8,799,675
2020	5,016,322	3,075,678	8,092,000
2021	1,433,148	2,771,852	4,205,000
2022	1,684,005	3,630,995	5,315,000
2023	1,468,761	3,486,239	4,955,000
Total	<u>\$126,497,913</u>	<u>\$56,846,189</u>	<u>\$183,344,101</u>

<sup>(1)</sup> Compound interest is included in year paid.

Wisconsin Statutes establish a limit on the authority of the City to incur general obligation indebtedness in any form for City and school purposes of 7% of the full value of taxable property located within the City, as equalized by the Wisconsin Department of Revenue. Of the 7%, 2% is authorized for school purposes only. The City may issue bonded debt for school purposes pursuant to the provisions of Chapter 119 or Chapter 67. Bonded indebtedness issued by the City under Chapter 119 for school purposes is limited to 2% of the full value of taxable property in the City as equalized by the State Department of Revenue. Separately, bonded indebtedness issued by the City under Chapter 67 for school purposes counts against the City's debt limit of 5% of the full value of taxable property within the City. Debt issued under Chapter 67 requires adoption of a resolution by the City but does not require voter approval.

**TOTAL UNUSED DEBT MARGIN FOR THE CITY OF MILWAUKEE  
AS OF AUGUST 1, 2006**

2005 Equalized Value of Taxable Property in the City	<u>\$26,256,713,800</u>
Legal Debt Limitation	
5% of Equalized Value for City Borrowing	\$1,312,835,690
General Obligation Debt Outstanding for City Borrowing	
As of August 1, 2006	\$ 826,170,000
Less: Provision for 2006 Maturities	<u>(\$33,605,000)</u>
Net General Obligation Debt Outstanding as of August 1, 2006	<u>\$792,565,000</u>
Total Unused Debt Margin for City Borrowing (In Dollars)	<u>\$520,270,690</u>
(As a Percentage)	39.6%
<b>Legal Debt Limitation for School Purpose Borrowing</b>	
2% of Equalized Value for School Purpose Borrowing	\$525,134,276
General Obligation Debt Outstanding for School Borrowing	
As of August 1, 2006	\$14,774,150
Less: Provision for 2006 Maturities	<u>\$0</u>
Net General Obligation Debt Outstanding for School Borrowing	<u>\$14,774,150</u>
As of August 1, 2006	
Total Unused Debt Margin for School Purposes (In Dollars)	<u>\$510,360,126</u>
(As a Percentage)	97.2%



**HISTORY OF FULL VALUATION IN  
THE CITY OF MILWAUKEE  
(2001-2005)**

<u>Levy Year</u>	<u>Collection Year</u>	<u>Full Valuation</u>	<u>Percent Increase/Decrease</u>
2001	2002	\$19,453,830,200	+12.16
2002	2003	20,298,387,000	+4.34
2003	2004	21,730,754,000	+7.06
2004	2005	23,491,773,700	+8.10
2005	2006	26,256,713,800	+11.77

**BORROWING-REVENUE BONDS**

The following sections provide information on outstanding revenue obligations issued by the Redevelopment Authority of the City of Milwaukee ("RACM") for school purposes.

**Neighborhood Schools Initiative**

In February 2002, RACM issued \$33,300,000 of its Revenue Bonds, Series 2002A and in November 2003, RACM issued \$78,740,000 of its Revenue Bonds, Series 2003A (Milwaukee Public Schools – Neighborhood Schools Initiative) (collectively, the "NSI Revenue Bonds"). RACM loaned the proceeds of the NSI Revenue Bonds to MPS to partially finance the initial cost of providing approximately 750,000 square-feet of additional classroom capacity for MPS schools, to implement the Neighborhood Schools Initiative and for related activities of MPS. MPS is obligated to make payments to RACM sufficient to pay the principal of and interest on the NSI Revenue Bonds. MPS's repayment obligation is payable solely from and secured by a pledge of all intradistrict aid received by MPS from the State.

The schedule of remaining debt service payments (net of bond proceeds expected to be used to pay capitalized interest) on the NSI Revenue Bonds is as follows:

**CITY OF MILWAUKEE  
REDEVELOPMENT AUTHORITY REVENUE BONDS  
ANNUAL DEBT SERVICE PAYMENTS AS OF AUGUST 1, 2006**

<u>Year ending June 30</u>	<u>Debt Service Payments</u>	<u>Year ending June 30</u>	<u>Debt Service Payments</u>	<u>Year ending June 30</u>	<u>Debt Service Payments</u>
2007	\$2,309,926	2013	\$9,205,469	2019	\$10,594,094
2008	6,663,799	2014	9,422,223	2020	10,843,059
2009	7,788,184	2015	9,644,614	2021	11,075,106
2010	8,689,218	2016	9,876,640	2022	11,338,378
2011	8,766,641	2017	10,106,960	2023	11,598,175
2012	8,974,833	2018	10,348,171	2024	11,871,609

**Lease Revenue Bonds**

In November 1990, RACM issued \$47,730,866 of revenue bonds (the "1990 Bonds") on behalf of the Wisconsin Preservation Fund, Inc. to acquire and renovate several facilities for lease and occupancy by MPS which is utilizing the facilities as middle schools, K-8 elementary schools and various common facilities related to public education. RACM subsequently issued \$39,415,000 Development Revenue Refunding Bonds, dated April 15, 1993 (the "1993 Bonds") to advance refund certain of the 1990 Bonds.

In May 2003, RACM issued \$34,475,000 Development Revenue Refunding Bonds, Series 2003 (the "Series 2003 Bonds") on behalf MPS to refund the 1993 Bonds.

The Series 2003 Bonds do not constitute general obligations of MPS or the City and shall not constitute or give rise to a charge against the City's taxing powers. MPS does, however, have an obligation to pay rents under a lease to support the debt service on the Series 2003 Bonds. Under the lease, the annual rent payments constitute a budgeted expenditure of MPS payable only if funds are budgeted and appropriated annually by the MPS from its School Operations Fund. MPS's obligations under the lease may be terminated on an annual basis by MPS if MPS fails to budget and appropriate for lease payments. The schedule of lease payments after taking into account the 2003 financing is as follows:

**REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE  
DEVELOPMENT REVENUE REFUNDING BONDS  
(2430 West Wisconsin Avenue Project and 1600 North Martin Luther King Drive Project)  
ANNUAL LEASE PAYMENTS AS OF AUGUST 1, 2006**

<u>Year Ending June 30</u>	<u>Lease Payments</u>	<u>Year Ending June 30</u>	<u>Lease Payments</u>
2007	\$3,913,473	2011	\$3,909,313
2008	3,906,573	2012	3,908,325
2009	3,910,973	2013	3,908,475
2010	3,908,763	2014	3,910,900

In November 2005 the RACM issued \$12,415,000 Redevelopment Lease Revenue Bonds, Series 2005A (the "Series 2005A" Bonds) on behalf of MPS to pay certain costs in connection with constructing additions and making improvements to three public Schools of the City of Milwaukee, Congress Extended Year-Round Elementary School ("Congress"), Craig Montessori School ("Craig") and La Escuela Fratney ("Fratney"). The schedule of lease payments is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007		\$521,663	\$521,663
2008	\$150,000	519,300	669,300
2009	480,000	509,138	989,138
2010	495,000	492,923	987,923
2011	515,000	475,366	990,366
2012	530,000	456,420	986,420
2013	550,000	436,028	986,028
2014	575,000	413,940	988,940
2015	595,000	390,243	985,243
2016	620,000	365,180	985,180
2017	645,000	338,609	983,609
2018	675,000	310,221	985,221
2019	705,000	280,030	985,030
2020	735,000	248,166	983,166
2021	770,000	214,488	984,488
2022	805,000	178,648	983,648
2023	845,000	140,698	985,698
2024	880,000	101,683	981,683
2025	925,000	61,521	986,521
2026	920,000	20,470	940,470
	<u>\$12,415,000</u>	<u>\$6,474,731</u>	<u>\$18,889,731</u>

### **Pension Obligation Bonds**

In December 2003 RACM issued its \$146,569,122 Taxable Pension Funding Bonds, 2003 Series C and 2003 Series D (Milwaukee Public Schools) (the "Pension Bonds"). RACM loaned the proceeds of the Pension Bonds to MPS, which, together with the proceeds of a general obligation note issue issued by the City, was used to retire MPS's unfunded actuarial accrued liability owed to the Wisconsin Retirement System with respect to retirement benefits for MPS employees. MPS is obligated to make payments to RACM sufficient to pay the principal of and interest on the Pension Bonds, subject to annual appropriation. MPS's repayment obligation is payable solely from and secured by a pledge of monies in the School Operations Fund. MPS has also pledged certain State Aid payments received by MPS from the State of Wisconsin to secure the payment of debt service.

The 2003 Series D Pension Bonds were issued as variable rate securities. The City, on behalf of MPS, entered into Interest Rate Exchange Agreements to synthetically fix the interest rate payable for the entire term of the Pension Bonds. The schedule of loan payments, after taking into account the Interest Rate Exchange Agreements are as follows:

**REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE  
TAXABLE PENSION FUNDING BONDS  
(Milwaukee Public Schools)  
ANNUAL LOAN PAYMENTS AS OF AUGUST 1, 2006**

<u>Year ending</u> <u>June 30</u>	<u>Loan</u> <u>Payments</u>	<u>Year ending</u> <u>June 30</u>	<u>Loan</u> <u>Payments</u>	<u>Year ending</u> <u>June 30</u>	<u>Loan</u> <u>Payments</u>
2007	\$8,017,271	2020	\$7,298,359	2033	\$17,543,683
2008	7,278,150	2021	8,017,271	2034	18,075,613
2009	8,037,480	2022	7,298,359	2035	18,621,529
2010	7,298,359	2023	8,037,480	2036	19,188,147
2011	8,037,480	2024	13,372,683	2037	19,763,822
2012	7,278,150	2025	13,800,872	2038	20,365,966
2013	7,318,568	2026	14,221,555	2039	20,984,891
2014	8,017,271	2027	14,655,611	2040	21,615,653
2015	7,298,359	2028	15,084,073	2041	8,744,312
2016	8,017,271	2029	15,576,390	2042	7,073,392
2017	7,298,359	2030	16,020,723	2043	6,743,580
2018	8,037,480	2031	16,524,829	2044	6,158,652
2019	7,298,359	2032	17,010,900		

### **Borrowing – Qualified Zone Academy Projects**

In December 2001, MPS entered into a \$8,590,000 Lease Purchase Agreement (2001 QZAB Project) for the purpose of purchasing and installing certain equipment for use at the Lynde and Harry Bradley Technology and Trade School. In November 2002 and in August 2003, respectively, MPS entered into a \$4,979,000 Lease and Deferred Payment Agreement (2002 QZAB Project), and \$2,650,000 Lease and Deferred Payment Agreement (2003 QZAB) and in December 2005, MPS entered into a \$2,021,000 Lease and Deferred Payment Agreement (2005 QZAB Project) for the purpose of constructing certain improvements to, and purchasing and installing certain equipment for use at, various MPS schools. MPS entered into QZAB Agreements with each Investor, under which MPS makes annual impoundment payments which are subject to annual appropriation by MPS. The schedule of total remaining impoundment payments is as follows:

<u>December 1</u>	<u>Payment</u> <u>Amount</u>
2006	\$2,124,275
2007	1,048,067
2008	798,725
2009	798,725
2010	490,143
2011	226,327
2012	226,327

## **BORROWING - FUTURE FINANCING**

The City has \$6,000,000 of authorized, but unissued, general obligation borrowing authority for School Purposes.

MPS has \$1,078,100 of Qualified Zone Academy Bond authorization for renovation and repair projects, as well as for equipment, technology, curriculum, and teacher training.

## **BOARD OF SCHOOL DIRECTORS**

MPS is governed by a nine member Board of Directors. Eight Directors represent and are elected by Districts from within a total population of approximately 592,765. One member is elected at-large. Directors serve staggered four year terms which expire in April, and annually, at its organizational meeting, elect a president. The current members and the years in which their terms of office expire are as follows:

Joseph Dannecker –President	(2007)	Charlene Hardin	(2009)
Barbara P. Horton, Vice President	(2007)	Jennifer Morales	(2009)
Kenneth L. Johnson	(2007)	Jeff Spence	(2007)
Peter Blewett	(2009)	Vacant (At-Large)	(2007)
Danny Goldberg	(2009)		

The City Officials who serve in identical capacities for MPS, and the year in which their terms of office expire are as follows:

W. Martin Morics	Comptroller	(2008)
Grant F. Langley	Attorney	(2008)
Wayne F. Whittow	Treasurer	(2008)

## **PUBLIC SERVICES AND FACILITIES**

MPS has approximately 92,972 full-time equivalent students and 6,193 teachers. It maintains 116 elementary schools, 21 middle schools, 19 high schools, one K-12 school and 2 MPS alternative schools. The average age of the MPS buildings is just over 50 years. However, significant investment was made in upgrading many of these buildings in the 1970's and 1980's.

The purpose and responsibility of MPS is to provide an efficient educational system for children enrolled in the public schools, whereby each child has access to programs and services that are appropriate to his or her educational needs. In addition to the regular educational programs, MPS offers comprehensive programs in the areas of vocational education, special education, and bilingual education. Through its specialty school programs, MPS offers advanced educational programs in such areas as fine arts, computer science, health professions, business, and technical trades. In addition, MPS provides community recreation and education services through its parks and centers for the elderly.

All of MPS has been accredited by the North Central Association of Colleges and Schools.

## **ENROLLMENT**

<u>School Year</u>	<u>Average School Daily Membership<sup>(1)</sup></u>	<u>School Year</u>	<u>Average School Daily Membership<sup>(1)</sup></u>
1995-1996	99,278	2001-2002	99,025
1996-1997	101,622	2002-2003	99,054
1997-1998	102,914	2003-2004	98,323
1998-1999	102,097	2004-2005	96,874
1999-2000	100,682	2005-2006	94,975
2000-2001	99,332		

<sup>(1)</sup> Kindergarten 1/2 day membership converted to full day equivalents.

## **EMPLOYEE RELATIONS**

On August 3, 2006, the Milwaukee Board of School Directors (the “MBSD”) and the Milwaukee Teacher’s Education Association (the “Union”) announced a tentative agreement on the teacher contract for the period July 1, 2005 through June 30, 2007. Terms of the agreement include total salary raises over the two years of 4.83%, including a component retroactive to July 1, 2005. The FY07 Superintendent’s Proposed Budget as adopted by the Board in May, 2006 included funds for a contract settlement, and MPS does not anticipate a significant change to the Final 2006-2007 budget should the proposed teacher contract be approved by MBSD and the union members.

## **FINANCIAL INFORMATION**

MPS has full control of all expenditures and revenues required to operate the school district. Section 119.46 of the Wisconsin Statutes requires MPS to transmit to the City a budget to operate, maintain, equip and improve the schools. The City’s Common Council must levy and collect property taxes equal to the amount of money budgeted by MPS. All taxes so collected and all other funds received by MPS for these purposes are deposited to the School Operations Fund. The audited financial statements of this and other funds under the control of MPS for the year ended June 30, 2005 are set forth in Appendix A of this Official Statement.

## **INSURANCE**

MPS carries Commercial General Liability Insurance, Auto Liability, Umbrella Excess Liability Insurance, and School Leaders Errors and Omissions Insurance. In addition, Section 893.80 of the Wisconsin Statutes, limits the amount recoverable against a political corporation, its officers, officials or employees for acts done within the scope of their official capacity to \$50,000 in tort liability for non-automobile cases and \$250,000 in automobile cases.

MPS is self-insured for health, dental, and workers’ compensation benefits and certain other general liability exposures. The accrued liability for estimated self-insured claims of \$32,981,515 recorded in the School Operations Fund and \$2,627,129 in the General Long-Term Obligations Account Group represents an estimate of the amount of claims incurred, but not paid or reported as of June 30, 2005.

## **INVESTMENT POLICIES**

The City may invest any of its funds, including MPS funds, not immediately needed in accordance with Section 66.04(2) of the Wisconsin Statutes. The City, through Common Council Resolution 930358, adopted July 6, 1993, has instructed the City Treasurer to invest City funds, including MPS funds, in: (a) Certificates of Time Deposit at approved public depositories limited to the equity capital or net worth of the financial institution with collateralization required when total deposits at any institution exceed \$500,000; (b) Repurchase Agreements with public depository institutions; (c) the State of Wisconsin Local Government Investment Pool; (d) U.S. Treasury and Agency instruments and (e) commercial paper which has a rating in the highest or second highest rating category assigned by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody’s Investors Services, Inc., or some other similar nationally recognized rating agency. To the extent possible, the City Treasurer attempts to match investments with anticipated cash flow requirements. No limits have been placed on how much of the portfolio can be invested in any of the above investment categories.

The State of Wisconsin Investment Board (“SWIB”) provides the Local Government Investment Pool as a subset of the State Investment Fund (the “Fund”). The Local Government Investment Pool includes deposits from elective participants consisting of over 1,000 municipalities and other public entities. The Fund also consists of cash balances of participants required to keep their cash balances in the Fund. These required participants include the State General Fund, State agencies and departments and Wisconsin Retirement System reserves. The Local Government Investment Pool portion of the Fund is additionally secured as to credit risk.

SWIB invests the assets of the Fund, which includes assets of the Local Government Investment Pool. Overall policy direction for SWIB is established by an independent, eight-member Board of Trustees (the “Trustees”). The Trustees establish long-term investment policies, set guidelines for each investment portfolio and monitor investment performance.

The objectives of the Fund are to provide (in order of priority) safety of principal, liquidity, and a reasonable rate of return. The Fund includes retirement trust funds cash balances pending longer-term investment by other investment divisions. The Fund also acts as the State’s cash management fund and provides the State’s General Fund with

liquidity for operating expenses. The Fund is strategically managed as a mutual fund with a longer average life than a money market fund. This strategic advantage is made possible by the mandatory investment of State funds for which the cash flow requirements can be determined significantly in advance. Because of the role played by the Fund, the cash balances available for investment vary daily as cash is accumulated or withdrawn from various funds.

A copy of SWIB's annual report may be obtained by submitting a written request to the State of Wisconsin Investment Board, P.O. Box 7842, Madison, WI 53707-7842.

The Local Government Investment Pool is a local option City depository. The City utilizes the Local Government Investment Pool in a manner similar to a "money market" account. When other investment options provide more favorable results, such options are utilized. As of June 30, 2006, the City had approximately 31% (\$105,000,000) of its and MPS's investments deposited in the Local Government Investment Pool.

## **REVENUES OF MILWAUKEE PUBLIC SCHOOLS**

### **SOURCES OF FUNDING**

In addition to borrowing, MPS revenues are derived from three major sources - local property taxes, state school aids and federal school aids. Sources of MPS revenues are detailed in the four year summary presented under the caption "MILWAUKEE PUBLIC SCHOOLS-GENERAL FUND-FOUR YEAR SUMMARY".

### **LOCAL PROPERTY TAX**

Property taxes levied on behalf of MPS by the City account for a significant portion of the School Operations Fund revenues available to MPS. For the fiscal year 2005-06, MPS's share of the levy produced approximately \$192,488,713 of the total revenues to the School Operations Fund. MPS's 2006-2007 School Operations Fund revenues are budgeted at \$935,059,049 of which City ad valorem property taxes are estimated at \$197,300,931, an increase of approximately 2.5% from 2005-2006.

### **MILWAUKEE PUBLIC SCHOOLS PROPERTY TAX LEVIES ALL FUNDS (2002-2006)**

<u>Levy Year</u>	<u>Collection Year</u>	<u>Taxes Levied</u>
2002	2003	\$181,046,151
2003	2004	183,198,437
2004	2005	207,442,419
2005	2006	213,803,808
2006	2007	221,208,925

In addition to taxes for operations levied under Section 119.46 of the Wisconsin Statutes, the MBSD by two-third vote of members elect may direct the City to levy a tax to provide funds to purchase school sites and construct or remodel school buildings. The school construction fund taxes in any one year may not exceed 0.6 mills on each dollar of assessed valuation of taxable property in the City.

*Property Subject to Taxation* - The City, at the direction of the MBSD, is required to levy and collect ad valorem taxes on or against all taxable property within MPS. Both real and personal property are subject to taxation, but there are certain classes of property which are exempt from taxation. These include, but are not limited to, property of the United States of America; property of the State and its political subdivisions; public libraries; public school property; certain charitable property not used for profit; religious property; manufacturing machinery and equipment; business computers; non-profit cemeteries; household furnishings and personal effects not used to produce income; intangible personal property; and inventories of merchandise and materials and supplies which are held for consumption by a business or are held primarily for sale.

Assessment of Property - The City Tax Commissioner's staff of assessors and appraisers annually conducts appraisals in order to determine the full (fair market) value of all non-manufacturing taxable real property and full cash value of all taxable personal property within MPS as of January 1st. Real property is divided into classes for taxation purposes. In cities there are four classes of real estate: (1) Residential; (2) Commercial; (3) Manufacturing; and (4) Agricultural.

The assessed value of a property is intended to represent current full market (cash) value and, with certain exceptions, is determined from manuals and associated data published by the State Department of Revenue. The State Department of Revenue certifies the competency of local assessors and supervises the administration of all laws concerning the valuation and assessment of taxable property and the levying of property taxes. Annually, the Department analyzes sales data reported to the Register of Deeds for each county to determine the relative level of local assessments to actual market sales. This process is referred to as "equalization". The ratios developed by the Department of Revenue are reported to each assessor.

Assessed valuation represents the value upon which ad valorem property taxes are levied. Wisconsin law requires that assessed values in any taxation district be established within 10% of "full value," as determined by the Department of Revenue, at least once during each four year period ending with the current year. If a district fails to meet this criteria in any year, the district's assessors are subject to special supervision by Department of Revenue employees during the ensuing assessment year. For 2005, the City's ratio of assessed to equalized value, as reported by the Department of Revenue, was 96.01 percent. Full values of any two major classes of property must also be within 10% during such four-year period or State Revenue Department supervision is required.

For each assessment year the City assessors must complete their assessments for review by the Tax Commissioner on or before the second Monday in May.

Manufacturing property is assessed by the Wisconsin Department of Revenue which annually notifies the City of the assessed value of all such property to be placed on the City tax roll. Manufacturing machinery and equipment are exempt from local property taxes.

Property owners are notified of increases in assessed valuation of their land or improvements, or taxable personal property in accordance with certain statutory deadlines. Property owners are given the opportunity to object to the amount or valuation of their real or personal properties by filing written objections with the board of assessors, which consists of the chief assessor, chief appraiser, supervising assessors and assistant supervising assessors of the Tax Commissioner's office and a City Board of Review or, for State assessments of manufacturing property, by the State Tax Appeals Commission. The City Board of Review consists of nine residents of the City appointed by the Mayor with approval of the City Common Council for staggered five-year terms.

Adjustments for increases or decreases in assessed values resulting from appeals are made. Upon conclusion of such hearings, the tax assessors are required to complete the assessment roll of all taxable property for the City and return it to the City Tax Commissioner no later than the first Monday of November each year. The Tax Commissioner must prepare the tax roll and return it to the City Treasurer for collection no later than the third Monday in December. Assessments may be appealed to the State courts from the Board of Review or State Tax Appeals Commission within a short period of time, provided the taxes are paid timely on the challenged assessment. Refund of any excess taxes paid may be ordered by the court. If rebated or abated taxes reduce equalized values of the City, the Wisconsin Department of Revenue may prorate the rebated amounts among all taxing jurisdictions which levied a tax against the subject property or adjust equalized values.

Mill Levies Affecting MPS Property Owners - In 1996, the Governor and the State legislature approved reducing funding for schools from property taxes. On a statewide basis, Wisconsin approved increasing its proportionate share of school aid from 40% to at least 66.7% beginning in 1996-1997.

In addition to MPS's tax levy, owners of property within MPS are obligated to pay taxes to other taxing entities in which their property is located. There are five other active taxing entities which have authority to levy ad valorem property taxes on property within MPS. These include the City, Milwaukee County, State of Wisconsin, Vocational School District and Milwaukee Metropolitan Sewerage District. As a result, property owners within the School District's boundaries are subject to a variety of different mill levies.

The 2005 levies (collected in 2006) for non-MBSD purposes were as follows:

City of Milwaukee	\$213,100,000
Milwaukee County	\$107,700,000
MATC	\$47,700,000
Metropolitan Sewerage District	\$36,000,000
State Forestry Tax	\$4,900,000

The net tax rate for all taxing jurisdictions in 2005 was \$24.50 per assessed thousand of property valuation.

*Property Tax Collections* - Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2006 will be collected in 2007. Taxes are due on January 31st in the year of collection; however, taxes on real property may be paid in 10 equal installments not later than the last day of each month from January to October without interest or penalty. Personal property taxes may be paid in 7 equal installments on the last day of each month from January to July without interest or penalty. First installments which are not timely paid within the prescribed time bear interest at the rate of 1% per month until paid, plus 0.5% of the tax with interest from January 31 and penalty. The City Treasurer collects current and delinquent property taxes, as well as any interest or penalty, and after deducting a statutory fee for such collection, remits the balance to MPS on a monthly basis from January through May and any balance of the annual levy remaining at June 30 is remitted to MPS in early July. If a tax payment is insufficient to pay all charges, City special charges, special assessments and special taxes are paid before MPS receives its share of the levy.

All taxes levied on property, together with interest thereon and penalties for default, as well as all other costs of collection, constitute a perpetual lien on and against the property taxed from January 1 of the levy year until paid. Such lien is on a parity with the tax liens of other general taxes. It is the City Treasurer's duty to enforce the collection of delinquent real property taxes by tax sale of such realty. Delinquent personal property taxes are enforceable by an action in debt and the property taxed or other property may be seized on execution to pay the judgment. Tax sales on realty are held on or before the second Monday in December of the collection year, preceded by a notice of delinquency to the taxpayer and a minimum of four weeks of public notice of the impending sale. Sales of personal property may be held at any time after October 1st of the collection year following notice of delinquency and public notice of sale. There can be no assurance, however, that the value of property sold, in the event of foreclosure and sale would be sufficient to produce the amount required with respect to taxes levied for MPS, taxes levied by overlapping taxing entities, as well as any interest or costs due thereon. Further, there can be no assurance that the property will be bid on and sold and if that should occur, the City Treasurer will remove the property from the tax rolls and delinquent taxes are payable when the property is sold or redeemed.

## STATE AIDS

The Wisconsin Constitution requires the State Legislature to provide for establishment of district schools "which shall be free and without charge for tuition to all children between the ages of 4 and 20 years". MPS receives revenues in the form of general school aids from the State as well as federal sources. State Aid is divided into two general categories, referred to as general and categorical aids. As explained below, general aid consists of equalization aid (determined by formula based upon pupil membership and property valuation) and integration aid (determined by a formula based on the number of students transferring into and out of minority areas). Categorical aid is based upon specific instructional or supporting programs.

In 1996, the Governor and the State Legislature approved reducing funding for schools from property taxes. The State approved increasing its proportionate share of school aid from 40% to at least 66.7% beginning in 1996-1997.

Based on the Governor's Proposed Budget for the 2005-2007 Biennium, MPS expects that State Aid will increase from approximately 54% of the MPS budget during the 2003-2004 school year to approximately 60% of the MPS budgets for the 2005-2006 and 2006-2007 school years.

Although the State has a multi-year tradition of providing state aid to local school districts to reduce their reliance on local property taxes, there can be no assurance that the State will not decrease, perhaps materially, the amount of State Aid provided to MPS. Unless offsetting revenue sources are obtained, or expenses reduced, MPS would have to increase its reliance upon the property tax to fund its operations if that were to occur.



## STATE AID-GENERAL AIDS

### Equalization Aid

MPS receives the majority of its State Aid in the form of equalization aid. Equalization aid is paid based on a formula designed to compensate for differences in property values between Wisconsin school districts. The effect is to equalize the property tax base supporting each Wisconsin student.

The State guarantees a minimum tax base to support the education of each public school child. The ratio of MPS's equalized valuation to the State's guaranteed valuation determines the percentage of shared costs funded by local property tax versus State equalization aid.

$$\text{Equalization Aid} = \text{Shared Costs} \times \frac{\text{Net Guaranteed Valuation}}{\text{Guaranteed Valuation}}$$

where Net Guaranteed Valuation equals Guaranteed Valuation minus Equalized Valuation. Shared Costs equals the net cost of the general fund plus the net cost of the debt service fund.

While MPS's annual revenue per pupil has been above the State-wide average during the past three school years (as detailed below), these revenues have been met with above average federal and State Aid payments.

### ANNUAL REVENUES PER PUPIL

	Statewide			Milwaukee		
	2002-2003	2003-2004	2004-05	2002-2003	2003-2004	2004-05
Revenue/Pupil	\$10,149	\$10,590	\$11,043	\$10,962	\$11,453	\$11,768
Federal Share (%)	5.75	6.33	6.28	13.08	15.02	14.32
State Share (%)	52.98	51.42	49.81	64.18	62.79	61.70
Local Share (%)	41.27	42.25	43.92	22.74	22.19	23.98

### Integration Aid

MPS also receives integration aid from the State under a plan where compensation is paid for each minority pupil transferring from an attendance area where minority pupils comprise 30% or more of the population to an attendance area which has less than a 30% minority population. Also, aid is paid for each non-minority pupil transferring from a non-minority attendance area to a minority attendance area.

The State provides for intradistrict transfer aid as well as interdistrict transfer aid. Intradistrict aid is calculated by multiplying the number of eligible transfer pupils by .25 and multiplying the product by the district's current equalization aid per pupil.

For interdistrict transfers, the State provides a financial incentive for both the sending and receiving districts. The receiving district is paid an amount equal to its average cost per pupil for each student it receives. The sending district is allowed to continue to count the transferred students for equalization aid purposes at 0.75 full-time equivalent (FTE), thereby removing any disincentive for transferring students. MPS must pay the transportation costs for its students sent to other districts, as well as the students it receives from other districts.

## STATE AID-CATEGORICAL AIDS

MPS receives State Aid in the form of categorical aids to finance or reimburse specific categories of instructional or supporting programs.

Pupil transportation aids are paid to reimburse MPS for transportation of public and non-public school pupils. Reimbursement for transportation aids is made on the basis of the number of children/mileage transported during the prior year and miles transported during the regular school year, with an additional flat per pupil payment for summer school. MPS is not required to transport children who live two miles or less from the school attended following the shortest commonly traveled route unless the route is considered hazardous.

The State pays tuition for the following types of children attending public schools:

- a) children in children's homes;
- b) children of parents employed at and residing on the grounds of a state or federal military camp, federal veteran's hospital, or state, charitable or penal institution; and
- c) children in foster homes or group homes if the home is located outside the district in which the child's parent or guardian resides and is exempt from property tax.

School library aid paid from the common school fund under Article 10, sections 4 and 5 of the Wisconsin Constitution and Section 43.70 of the Wisconsin Statutes, is distributed on the basis of the number of children between age 4 and 20 residing in the district as of June 30 of the year before payments are made. School library aid payments to MPS for 2005-2006 were \$3,746,360 or \$22.32 per child.

The State pays special aids to the district to finance approved programs for handicapped children or children with exceptional educational needs, including those with visual or hearing disabilities, speech or language disabilities, learning disabilities and requiring homebound instruction. This aid has been decreasing as a percent of costs for the last two decades.

Other categorical aids include grants for demonstration projects to assist minors in avoiding or overcoming problems resulting from the abuse of alcohol or drugs; State matching payments for school lunch programs required under 42 U.S.C. 1751, et. seq.; elderly food service aid; grants to provide pre-school structured educational experience focusing on the needs of low-income pupils and encouraging early skill development; bilingual/bicultural aids for programs designed to improve comprehension, speaking, reading and writing ability of limited English speaking pupils in the English language; youth initiatives for education and training programs for youths 14 through 21; and Wisconsin morning milk program for children enrolled in kindergarten through grade 5. MPS also receives funding under Sections 119.71, 119.72 and 119.74 of the Wisconsin Statutes for five-year old kindergarten and early childhood education.

These categorical aids are in addition to equalization aid and integration aid.

## **PARENTAL CHOICE PROGRAM**

Beginning in the 1990-91 school year, low-income children constituting up to 1.5% of the pupils in grades kindergarten to 12 residing in the City and enrolled in MPS may attend at no charge any private non-sectarian school located in the City which meets all public school health and safety laws and codes, complies with federal nondiscrimination laws and meets a standard of advancement, attendance, academic progress, or parental involvement. Beginning in the 1996-97 school year, no more than 15% of the school district's membership may attend private school under Wisconsin Statute 119.23. In March 2006, Governor Doyle signed Act 125 which increases the limit of participants to 22,500 students. Upon proof of a pupil's enrollment in the private school the State Superintendent provides a proportionate share of basic and supplemental State school aids. Since 2002 annual general school aids for MPS are reduced by an amount equal to 45% of the total cost of the Choice Program.

For the 2005-06 school year, approximately 14,240 low-income children enrolled in the Milwaukee Parental Choice Program.

## **FEDERAL SCHOOL AIDS**

In addition to State Aid, MPS receives federal aids for specific school programs.

The federal government provides basic school lunch aid to school districts. This program is administered by the State Department of Public Instruction. For the 2005-2006 school year, MPS received in excess of \$19,000,000 in basic lunch aid under the federal program administered by the United States Department of Agriculture through the Wisconsin Department of Public Instruction.

MPS has applied for and received federal aid for numerous other programs. In general, these federal aids are known as categorical aids and require MPS to make the expenditure first, with federal reimbursement following. The federal programs administered by the Wisconsin Department of Public Instruction from which MPS received program reimbursement include the following: Public Law 89-313 providing funds for handicapped children; Title I - Disadvantaged and Low Income Children; Special Education - Grants to States; Carl Perkins Act; Emergency Immigrant Educational Assistance; Title II; Public Law 99-457. MPS received aid directly from the Federal Government in the case of several federal programs including the Drug Free Schools program and Headstart.

For the year 2005-2006, total federal aids to MPS for food services and other categorical aids are estimated to be approximately \$183,365,289.

## **GENERAL FUND TRENDS**

Equalization aid revenues in the 2004-2005 school year declined by approximately \$865,999 due to increased shared costs in the previous year. Property tax revenues increased by approximately \$23,618,912 million.

Total expenditures increased approximately \$2,411,065 million in 2004-2005 versus the previous year. Expenditures for instructional services were 61% of total expenditures, versus approximately 59% over the prior year. The District remains under a revenue cap limitation first imposed in 1993-1994. Despite this restriction, MPS expects to provide all necessary instructional and operating services without major disruptions.

**MILWAUKEE PUBLIC SCHOOLS**  
**GENERAL FUND <sup>(1)</sup>**  
**FOUR YEAR SUMMARY**

	2005 <u>Year End</u> <sup>(8)</sup>	2004 <u>Year End</u> <sup>(7)</sup>	2003 <u>Year End</u> <sup>(5)(6)</sup>	2002 <u>Year End</u> <sup>(2)(3)(4)</sup>
Revenues				
Property tax levy	\$188,706,559	\$164,834,180	\$166,054,974	\$161,632,008
Other local sources	10,192,204	9,106,065	10,384,593	9,680,243
State aid:				
Equalization aid	574,203,739	575,069,738	556,169,239	541,388,517
Special classes	39,419,557	40,437,993	40,312,755	41,148,872
Integration	38,661,528	39,437,167	38,717,298	38,830,913
Other state aid	50,958,075	50,393,039	48,330,871	45,394,469
Federal aid:				
Education Consolidation				
Improvement Act	69,124,917	59,694,854	55,238,900	48,563,189
Erate Refunds	3,296,638	-	857,304	-
Other federal aid	54,584,105	63,564,038	65,769,875	54,871,879
Interest and investment earnings	784,655	761,505	163,109	-
Total Revenues	<u>1,029,931,977</u>	<u>1,003,298,579</u>	<u>981,998,918</u>	<u>941,510,090</u>
Expenditures				
Current operating:				
Instructional services:				
Undifferentiated curriculum	418,322,709	426,491,163	394,787,592	355,934,282
Regular and other curriculum	99,908,858	103,609,583	113,717,969	110,567,911
Special curriculum	108,491,974	97,023,789	95,307,418	93,443,822
Total instructional services	<u>626,723,541</u>	<u>627,124,535</u>	<u>603,812,979</u>	<u>559,946,015</u>
Community services	20,591,303	18,191,494	21,442,778	18,312,322
Pupil and staff services	89,185,984	82,254,854	106,437,367	84,849,657
General and school building	108,422,951			
administration		116,968,619	115,847,360	82,821,806
Business services	153,790,477	156,312,056	164,931,353	150,643,630
Debt Service:				
Principal	3,657,500	4,003,652	466,528	-
Interest	8,106,051	907,094	376,242	-
Bond Issuance Cost		2,082,726		
Other	1,162,108	1,383,820	1,400,556	54,246,349
Capital outlay:				
Sites and buildings	-	-	-	-
Furniture and equipment	-	-	-	-
Total Expenditures	<u>1,011,639,915</u>	<u>1,009,228,850</u>	<u>1,014,715,163</u>	<u>950,819,779</u>
Excess of revenues over (under) expenditures	18,292,062	(5,930,271)	(32,716,245)	(9,309,689)
Other Financing Sources (Uses)	-		-	-
Proceeds from pension bonds	-	168,051,136	-	-
Payment for refunded pension debt	-	(165,505,293)	-	-
Capital Leases	-	-	-	-
Transfers in (out)	-	-	-	(351,168)
Total Other Financing Sources(uses)	<u>0</u>	<u>2,545,843</u>	<u>0</u>	<u>(351,168)</u>
Net Change in Fund Balances	18,292,062	(3,384,428)	(32,716,245)	(9,660,857)
Fund balance - beginning of year	81,808,246	\$85,192,674	-	-
Fund balance - beginning of year, as restated	-	-	\$117,908,916	127,569,773
Fund balance - end of year	<u>\$100,100,308</u>	<u>\$81,808,246</u>	<u>\$85,192,671</u>	<u>\$117,908,916</u>

(1) Reflects the GASB 34 reporting format beginning in 2002.

(2) Source: Comprehensive Annual Financial Report for June 30, 2002, p.35.

(3) In 2002, due to GASB Interpretation 6, Beginning Fund balance was increased to reflect \$5,985,503 of Accrued Compensated Balances, and \$3,182,325 of Self-insurance claims.

(4) Also in 2002, due to GASB Statement 34, \$24,377,764 of Capital Outlay was allocated among the expense category and the remainder was moved to the Construction Fund.

(5) Source: Comprehensive Annual Financial Report for June 30, 2003, p. 13

(6) Expenditures, Other: In 2003, due to GASB 34, most of the "Other" category has been reallocated, primarily to Pupil and staff services, and to General and school building administration.

(7) Source: Comprehensive Annual Financial Report for June 30, 2004, p. 17.

(8) Source: Comprehensive Annual Financial Report for June 30, 2005, p. 18.

**Milwaukee Public Schools  
School Operations Budget  
Fiscal year 2007 and 2006**

	<b><u>2006-07</u> <u>Budget</u> <sup>(1)</sup></b>	<b><u>2005-06</u> <u>Budget</u> <sup>(2)</sup></b>
<b>REVENUES</b>		
<b>Locally Generated:</b>		
Property Tax Levy	\$197,300,931	\$192,488,713
Other Local Sources	<u>8,993,625</u>	<u>9,174,867</u>
Subtotal	<u>206,294,556</u>	<u>201,663,580</u>
<b>State Aid:</b>		
Equalization Aid	595,123,859	586,196,109
Special Education	38,313,000	37,967,972
Integration	44,410,832	43,971,121
Other	<u>13,923,373</u>	<u>13,866,784</u>
Subtotal	<u>691,771,064</u>	<u>682,001,986</u>
<b>Federal Aid:</b>		
School Nutrition Commodities & Federal Indirect	30,155,981	30,255,981
Other	<u>4,250,000</u>	<u>4,250,000</u>
Subtotal	<u>34,405,981</u>	<u>34,505,981</u>
<b>TOTAL REVENUES</b>	932,471,601	918,171,547
Plus Use of Surplus	<u>2,587,448</u>	<u>1,693,602</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u><u>\$935,059,049</u></u>	<u><u>\$919,865,149</u></u>
<b>EXPENDITURES (3)</b>		
Instructional Services	\$592,392,738	\$583,194,504
Support Services	<u>342,666,311</u>	<u>336,670,645</u>
<b>TOTAL EXPENDITURES</b>	<u><u>935,059,049</u></u>	<u><u>919,865,149</u></u>
<b>SUMMARY</b>		
Total Revenues and Use of Surplus	\$935,059,049	\$919,865,149
Total Expenditures	<u>935,059,049</u>	<u>919,865,149</u>
Difference	<u><u>\$0</u></u>	<u><u>\$0</u></u>

<sup>(1)</sup>Initial Fiscal Year 2007 School Operations Fund Budget approved May, 2006.

<sup>(2)</sup>Final Fiscal Year 2006 School Operations Fund Budget approved October, 2005.

<sup>(3)</sup>Expenditure categories include allocations based on estimates and may differ from actual experience.

The management of MPS has prepared the projected financial information set forth below to present the cash flow needs of MPS for the fiscal year 2006-2007. It is the belief of MPS management that these projections are reasonable and reflect the best current estimates and judgments regarding future cash flows. MPS's independent auditors have not compiled, examined, or performed any procedures with respect to the prospective financial information set forth below, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, this prospective financial information.

**MILWAUKEE PUBLIC SCHOOLS**  
**SCHOOL OPERATIONS FUND MONTHLY CASH FLOW SUMMARY**  
**2005-2006 ACTUAL RESULTS (UNAUDITED)**  
**2006-2007 PROJECTED**  
**(Millions of Dollars)**

**ACTUAL**

	Beginning Cash Balance (Deficit)	Receipts	Disbursements	Ending Cash Balance (Deficit)
July, 2005	77.634	23.646	70.742	30.538
August	30.538	26.339	69.256	(12.379)
September	(12.379)	271.955 <sup>(1)</sup>	109.099	150.477
October	150.477	5.297	95.541	60.233
November	60.233	35.986	94.291	1.928
December	1.928	163.093	116.673	48.348
January, 2006	48.348	128.164	91.488	85.024
February	85.024	58.683	96.198	47.509
March	47.509	195.478	105.322	137.665
April	137.665	27.714	86.109	79.270
May	79.270	34.537	90.005	23.802
June	23.802	371.134	363.801 <sup>(1)</sup>	31.135

**PROJECTED**

	Beginning Cash Balance (Deficit)	Receipts	Disbursements	Ending Cash Balance (Deficit)
July, 2006	31.135	25.948	45.682	11.401
August	11.401	206.786 <sup>(2)</sup>	68.955	149.232
September	149.232	99.330	76.722	171.840
October	171.840	10.484	95.198	87.126
November	87.126	34.031	92.925	28.232
December	28.232	161.860	116.817	73.275
January, 2007	73.275	128.312	90.421	111.166
February	111.166	65.704	93.666	83.204
March	83.204	192.760	104.590	171.374
April	171.374	30.252	84.289	117.337
May	117.337	30.458	88.888	58.907
June	58.907	330.471	356.229 <sup>(2)</sup>	33.149

<sup>(1)</sup> Includes \$182,000,000 Series 2005 M6 Notes.

<sup>(2)</sup> Includes \$175,000,000 2006 M7 Notes.

**MILWAUKEE PUBLIC SCHOOLS**  
**SCHOOL OPERATIONS FUND - CASH FLOW PROJECTION**  
**JULY 1, 2006 - JUNE 30, 2007**  
(Millions of Dollars)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
<b>Balance</b>	31.135	11.401	149.232	171.840	87.126	28.232	73.275	111.166	83.204	171.374	117.337	58.907	
<b>RECEIPTS</b>													
Property Taxes							110.232	27.760	5.248	9.451	6.077	38.533	197.301
Integration Aid												44.411	44.411
Computer Aid											3.300		3.300
State Aid													
Equalization Aid	9.889		86.444			145.187			144.770			202.677	588.967
Other					5.747	6.228	7.897	8.559	5.747	3.700	1.000	10.058	48.936
Categorical Aid	7.150	22.941	4.763	2.759	20.130	5.213	4.282	22.956	31.591	11.519	13.748	23.080	170.132
Nutrition	2.900	3.453		0.569	1.658	1.568	2.368	2.368	2.368	2.368	2.368	2.368	24.356
Local Revenues	0.009	0.092	0.123	0.156	1.996	0.164	0.033	0.061	0.036	0.014	0.965	5.344	8.993
Other Local Receipts	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	24.000
Non Operating Receipts	4.000	3.300	6.000	5.000	2.500	1.500	1.500	2.000	1.000	1.200	1.000	2.000	31.000
Note Proceeds		175.000											175.000
<b>Total Receipts</b>	25.948	206.786	99.330	10.484	34.031	161.860	128.312	65.704	192.760	30.252	30.458	330.471	1,316.396
<b>DISBURSEMENTS</b>													
Salaries and Benefits	21.551	17.890	62.687	74.437	73.580	108.764	70.750	73.350	74.891	73.418	71.885	105.225	828.428
Services & Supplies	18.391	44.065	7.035	16.261	15.845	4.553	15.671	17.316	25.399	7.871	13.003	50.204	235.614
Other Local Expenses	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	24.000
Non Operating Expenses	3.300	5.000	5.000	2.500	1.500	1.500	2.000	1.000	1.200	1.000	2.000	2.000	28.000
Note Principal to Trustee												175.000	175.000
Debt Service	0.440								1.100			21.800	23.340
<b>Total Disbursements</b>	45.682	68.955	76.722	95.198	92.925	116.817	90.421	93.666	104.590	84.289	88.888	356.229	1,314.382
<b>Balance</b>	11.401	149.232	171.840	87.126	28.232	73.275	111.166	83.204	171.374	117.337	58.907	33.149	

# THE CITY OF MILWAUKEE

## GENERAL

The City of Milwaukee, Wisconsin (the “City”), is located on the western shore of Lake Michigan in southeastern Wisconsin. The City is the hub of the metropolitan area and a thriving place to live and work. Milwaukee is Wisconsin’s largest city with a population of 592,765 and is the principal trade, service and financial center of southeastern Wisconsin. The surrounding Standard Consolidated Metropolitan Statistical Area (SCMSA) consisting of Milwaukee, Waukesha, Washington, Ozaukee, and Racine Counties, has a population of nearly 1.6 million. This SCMSA is the 24th largest metropolitan area in the United States.

The Port of Milwaukee provides access to the sea lanes of the world. General Mitchell International Airport is served by domestic and international airlines. Five rail lines serve the City and provide transportation links throughout the United States. The City is also connected with the interstate highway system.

Milwaukee was incorporated as a city on January 31, 1846 pursuant to the laws of the territory of Wisconsin. Wisconsin gained statehood in 1848. The City, operating under a Home Rule Charter since 1874, has a council-mayor form of government.

## CITY OF MILWAUKEE SELECTED ECONOMIC DATA

	<u>Population</u> <sup>(1)</sup>	<u>Per Capita Average Income</u> <sup>(2)</sup>	<u>Per Capita Household Income</u> <sup>(2)</sup>	<u>Per Capita Equalized Value</u>
2000	605,572	14,170	36,830	28,641
2001	595,508	14,147	36,339	32,667
2002	595,958	13,420	34,320	34,022
2003	595,245	13,680	35,436	36,507
2004	593,920	13,578	35,287	39,554
2005	592,765	Not Available	Not Available	44,295

Sources: Selected data has been derived from information contained in Sales and Marketing Management magazine as reported for the appropriate year. Other sources include the Bureau of Census; Wisconsin Department of Revenue; Metropolitan Milwaukee Association of Commerce and the City of Milwaukee Division of Economic Development.

<sup>(1)</sup> The population figures are derived through estimates from the Wisconsin Department of Revenue for use in the distribution of State Shared Revenues.

<sup>(2)</sup> Per Capita Average Income and Per Capita Household Income figures are estimates based on the Sales and Marketing Magazine Estimated Buying Income (EBI). Effective Buying Income is defined by the Sales and Marketing Magazine as money income less personal tax and non-tax payments.

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## BUILDING PERMITS

Another indicator of economic growth is the activity in the building industry. The following table indicates building permit activity during the period 2001 through December 2005.

### General Total

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2001	\$388,613,133	2,752
2002	337,028,003	2,756
2003	334,954,154	2,884
2004	294,811,125	2,784
2005	529,251,733	2,599

### Residential Building

<u>Year</u>	<u>Single Family</u>		<u>Multi-Family</u>		<u>Total</u>		<u>Permits Issued</u>
	<u>Value</u>	<u># Of Units</u>	<u>Value</u>	<u># Of Units</u>	<u>Value</u>	<u># Of Units</u>	
2001	\$17,597,336	141	\$81,508,896	401	\$99,106,232	542	168
2002	18,726,773	135	53,525,650	562	72,252,423	697	172
2003	20,069,077	159	91,792,191	666	111,861,268	825	187
2004	29,896,986	194	48,346,002	553	78,242,988	747	244
2005	33,751,976	193	113,713,239	500	147,465,215	693	231

### Commercial Building

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2001	\$106,537,251	99
2002	87,778,047	89
2003	61,824,799	96
2004	63,485,441	89
2005	166,425,515	106

### Public Building

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2001	\$64,534,354	406
2002	24,122,613	159
2003	54,241,508	202
2004	34,176,914	95
2005	51,889,921	49

### Alterations and Additions

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2001	\$118,435,296	2,079
2002	152,874,920	2,336
2003	107,026,579	2,399
2004	118,905,782	2,356
2005	163,471,082	2,213

Note: Miller Park, the City's new major league baseball venue, was completed in March 2001. This \$350 + million project is not incorporated within the above schedules.

Sources: Development Center, Department of City Development. Data accumulated from monthly reports submitted to U.S. Department of Commerce, Bureau of the Census, Construction Statistics Division, Washington D.C.

## BANK DEPOSITS

The following table illustrates a five-year history of bank deposits for the largest banks in the City. (In Thousands of Dollars)

	2000	2001	2002	2003	2004 <sup>(7)</sup>
Bank One, Milwaukee, N.A. <sup>(1) (2)</sup>	\$4,397,409	\$4,398,040	—	—	—
M & I Marshall & Ilsley Bank	8,623,224	18,244,031	\$18,523,783	\$20,932,473	\$24,071,245 <sup>(8)</sup>
Wells Fargo Bank Wisconsin, N.A.	1,803,846	1,992,708	2,200,491	2,277,301	
Bank Mutual <sup>(3)</sup>	1,343,013	1,479,372	1,477,209	2,270,649	2,032,698
Associated Bank Milwaukee <sup>(4)</sup>	1,918,455	5,840,463	5,648,495	—	—
Guaranty Bank	918,287	1,475,151	1,784,272	1,541,942	1,359,925 <sup>(9)</sup>
Johnson Bank	1,105,687	1,165,488	1,468,019	1,872,594	<sup>(9)</sup>
St. Francis Bank, FSB <sup>(5)</sup>	1,480,471	1,431,840	140,024	1,349,686	<sup>(9)</sup>
State Financial Bank, N.A. <sup>(6)</sup>	859,769	955,237	991,701	—	—
Park Bank	455,397	466,454	472,664	510,814	568,412

<sup>(1)</sup> Total deposits for Bank One, Wisconsin. As of December 7, 1996, all 14 of the Bank One charters in Wisconsin merged into one charter. Bank deposits for all Bank One offices in the State are combined and reported as one amount under the name Bank One, Wisconsin. As a result, bank deposits for Bank One offices in the City of Milwaukee are not available for year-end 1996 and later.

<sup>(2)</sup> Title change to Bank One, National Association due to a merger with Bank One, National Association of Chicago, Illinois effective August 2002. As a result, bank deposits for Bank One offices in the City of Milwaukee are not available for year-end 2002.

<sup>(3)</sup> Changed title to Bank Mutual March, 2003.

<sup>(4)</sup> Changed title to Associated Bank, National Association, due to merger with Associated Bank Green Bay, National Association on April 20, 2001.

<sup>(5)</sup> St. Francis Bank merged into Mid America Bank, FSB, Clarendon Hills, Illinois on 12/01/2003.

<sup>(6)</sup> State Financial Bank, N.A. formed by merger in 2000.

<sup>(7)</sup> As of March 2005.

<sup>(8)</sup> Changed title to Wells Fargo Bank, National Association due to merger with Wells Fargo, National Association of San Francisco, CA, effective February 2004.

<sup>(9)</sup> No data available as of March 2005.

Source: Wisconsin Department of Financial Institutions, March 2005 and The American Financial Directory (Wisconsin) July-December 2005.

Note: Other banks that have a significant presence in the Milwaukee area include TCF National Bank and U.S. Bank. These banks are not chartered in Wisconsin and information on these banks is not available through the Wisconsin Department of Financial Institutions.

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## LEADING BUSINESS AND INDUSTRIAL FIRMS LOCATED WITHIN MILWAUKEE COUNTY

The listing of large employers in Milwaukee County which follows, reveals the diversity of Milwaukee County's economic base. The largest of these are shown in the following list, which includes only employers with the majority or all of their employment in Milwaukee County.

Employer	2005 Employment Estimates <sup>(1)</sup>	Type of Business or Service
Aurora Health Care	14,247	Health Care
U.S. Government (Includes Zablocki V.A. Medical Center)	10,800	Government
Covenant Health Care	9,100	Health Care
City of Milwaukee	7,306	Government
Milwaukee Public Schools	7,137	Education
M&I Marshall & Ilsley	6,729	Holding company banking/finance and data services
Columbia-St. Mary's	5,749	Health Care
Northwestern Mutual Life	4,687	Insurance
University of Wisconsin-Milwaukee	4,307	Education
Medical College of Wisconsin	4,052	Medical school/academic/health care
Rockwell Automation (formerly Allen-Bradley)	3,800	Manufacturer, electrical/electronic products
Froedtert Memorial Lutheran Hospital	3,720	Health Care
Harley-Davidson Motor Company	3,611	Manufacturer, motorcycles
US Bank (formerly Firststar Corporation)	3,350	Finance, banking
WE Energies	3,300	Electric/natural gas utility
SBC Communications (Ameritech Corporation)	2,766	Communications
Milwaukee County	2,638	Government
Briggs and Stratton	2,600	Manufacturer, small engines, automotive locks & keys
Children's Hospital of Wisconsin	2,500	Health care
Assurant Health Care <sup>(2)</sup>	2,083	Health care
Marquette University	1,843	Higher Education
Miller Brewing Company	1,800	Manufacturer of beer and aluminum containers
Johnson Controls, Inc.	1,786	Manufacturer, of electronic control systems, automobile interior modules
Journal Communications	1,700	Publishing, printing and broadcasting
Delphi Automotive Systems (General Motors)	1,500	Manufacturer, automotive electronic engine control modules, catalytic converters, and automotive

(1) Reflects full-time equivalent employees (FTEs).

(2) Also known as Fortis.

Source: The 2006 Business Journal, 2005 Wisconsin Manufacturers and Business Service Directories and employer surveys February-March 2006.

## EMPLOYMENT AND INDUSTRY

During 2005, the City's unemployment rate averaged approximately 7.1%. Presented below are unemployment rates for the City of Milwaukee, as compared to the State of Wisconsin and the United States for the period 2001 through December 2005. The information below reflects revisions, corrections, and new inputs from the 2000 census, including the application of the changes to the prior years shown. For further information on the changes, please contact the U.S. Bureau of Labor Statistics, or visit their website at <http://www.bls.gov>.

### ANNUAL UNEMPLOYMENT RATES

<u>Year</u>	<u>City of Milwaukee</u>	<u>Milwaukee - Waukesha Metropolitan Area</u>	<u>State of Wisconsin</u>	<u>United States</u>
2005	7.1%	4.9%	4.7%	5.1%
2004	7.7	5.4	4.9	5.5
2003	8.7	6.1	5.6	6.0
2002	8.3	5.8	5.3	5.8
2001	6.7	4.6	4.4	4.7

Source: U.S. Bureau of Labor Statistics.

### RECENT MONTHLY UNEMPLOYMENT RATES (Not Seasonally Adjusted)

<u>Month</u>	<u>City of Milwaukee</u>	<u>Milwaukee - Waukesha Metropolitan Area</u>	<u>State of Wisconsin</u>	<u>United States</u>
May 2006	7.1%	5.0%	4.5%	4.4%

Source: U.S. Bureau of Labor Statistics.

The City's economic structure reveals a diversified economy with strong service and manufacturing sectors. The service sector (service, finance, insurance, real estate and retail trade) employs over 69 percent of the workforce. Manufacturing firms employ 17 percent of the work force. The area is not dominated by any large employers. Less than two percent of the manufacturers have employment levels greater than 500. Less than one percent of the employers in finance, insurance and services have more than 500 employees.

**County of Milwaukee**  
**Establishments and Employment by Industry Group**  
**2004 - 3rd Quarter**

<u>NAICS Description</u>	<u>Number of Establishments</u>	<u>Total Average Employment</u>
Utilities	34	1,731
Construction	1,423	13,188
Manufacturing	1,316	63,060
Wholesale Trade	1,576	19,390
Retail Trade	2,550	46,167
Transportation And Warehousing	698	22,082
Finance And Insurance	1,310	30,750
Real Estate And Rental And Leasing	863	7,365
Professional And Technical Services	2,405	23,007
Management Of Companies And Enterprises	202	13,634
Administrative And Waste Services	1,202	38,223
Educational Services	523	32,059
Health Care And Social Assistance	2,665	81,469
Arts, Entertainment, And Recreation	262	8,673
Accommodation And Food Services	1,735	35,922
Other Services, Ex. Public Admin	2,678	15,781
Public Administration	107	22,825
Not Classified	353	12,303
 Total	 21,902	 487,629
 All Government	 409	 51,656
Private Sector	21,493	435,973

Source: Wisconsin Department of Workforce Development

## **TEN LARGEST TAXPAYERS WITH 2005 ASSESSED VALUATIONS**

US Bank (fna First Security Bank)	\$222,499,980
Northwestern Mutual Life Ins.	165,460,560
Marcus Corp/Milw City Center/Pfister	99,579,010
NNN 411 East Wisconsin LLC	91,034,000
Towne Realty	87,902,400
Metropolitan Associates	87,804,700
M & I Marshall & Ilsley Bank/Metavante Corp	77,442,920
Miller Brewing	66,293,140
100 E. Wisconsin Ave Joint Venture	58,183,120
Great Lakes REIT/GLR Milw Center	56,420,380

Source: City of Milwaukee, Assessor's Office.

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## BOOK-ENTRY ONLY SYSTEM

*The information contained in the following paragraphs of this subsection “Book-Entry Only System” has been extracted from a document prepared by The Depository Trust Company (“DTC”) entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE.” The City makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.*

DTC, New York, NY, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Notes, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of The City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered to DTC.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered to DTC.

NEITHER THE CITY, THE PAYING AGENT NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE NOTES; (3) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO HOLDERS OF THE NOTES; (4) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS THE HOLDER OF THE NOTES; OR (5) THE SELECTION BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF NOTES.

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## LEGAL MATTERS

### LITIGATION

MPS and its directors, officers and employees have been defendants in numerous lawsuits over the years. Experience has shown that a relatively small number of suits commenced are reduced to judgment. MPS does carry Commercial General Liability Insurance, Umbrella General Liability Insurance and School Teachers Error and Omissions Insurance. Section 893.80 of the Wisconsin Statutes limits the amount recoverable against a political corporation, its officer, officials or employees for acts performed in their official capacity to \$50,000 in tort liability of non-automobile cases and \$250,000 in automobile cases.

The City Attorney's Office has currently reviewed the status of pending or threatened litigation, claims and assessments to which the office has devoted substantive attention in the form of legal consultation or representation. Those which individually represent the maximum potential loss exposure in excess of \$1 million which existed as of the date August 1, 2006 are summarized below.

***Jamie S., et al. v. Milwaukee Bd. of Sch. Directors, Case No. 01-C-0298 (E.D. Wis.) (formerly known as Lamont A., et al. v. Milwaukee Bd. of Sch. Directors)***. This is a federal civil rights suit, pending in the U.S. District Court for the Eastern District of Wisconsin. It is filed on behalf of seven District special-education students, alleging violations of the Individuals with Disabilities Education Act, the Rehabilitation Act of 1973 (Section 504) and Section 1983 of the Civil Rights Act of 1871 (42 U.S.C. §1983). The suit alleges that the District violated the statutory and constitutional rights of the named plaintiffs as a result of the District's delivery and/or failure to provide education and services to students protected under the referenced statutes. The plaintiffs have also brought claims against the State of Wisconsin, Department of Public Instruction, alleging that the State of Wisconsin has failed to properly monitor the District and enforce federal and state laws. The suit also seeks certification of a class action of all District special education students, as well as students who have not been found eligible for special education. This number exceeds 16,000 students. The class allegations assert the District systematically violates the rights of all special education students, in a broad range of areas, as well as the rights of their parents and/or guardians.

In May, 2003, the Court significantly narrowed the class of plaintiffs, dismissing named plaintiffs and the unnamed class plaintiffs that had failed to exhaust administrative remedies prior to commencing the federal court action. That decision was appealed to the Seventh Circuit Court of Appeals, which denied the appeal. The Court certified the class which consists of those students eligible for special services who are, have been, or will be denied or delayed entry into the special education process which results in a properly constituted initial IEP meeting between the IEP team and the parents or guardians of the student.

Plaintiffs seek equitable relief, including the entry of injunctions against MPS requiring MPS to ensure that MPS provide education and services and follow procedures called for under the federal statutes. Plaintiffs also seek undefined compensatory relief, in the form of compensatory education. It is unclear from the pleadings whether plaintiffs seek monetary relief; they do seek attorney's fees and expenses

In November, 2005, the Court concluded that MPS failed in its Child Find obligations under the IDEA in its failure to ensure the 90 day time limit for completing evaluations and failure to identify or untimely identifications of disabled students who have been subject to excessive suspensions. The Court concluded that DPI failed in its monitoring and oversight obligations. The Court deemed these "systemic" violations. The Court noted a third problematic area – poor record keeping. The Court also stressed that both defendants are currently operating in good faith to ensure compliance with the law.

In April of 2006, the Court heard testimony regarding whether MPS and DPI met other Child Find obligations under IDEA. A Post-trial briefing was completed in June, 2006 and the parties are now awaiting a decision from the Court.

## LEGAL OPINION

The legal opinions of Katten Muchin Rosenman LLP, Chicago, Illinois, and Hurtado, S.C., Wauwatosa, Wisconsin, Bond Counsel to the City, will be delivered to the purchasers of the Notes. Drafts of the legal opinion for the Notes are included herein as Appendix B.

## TAX STATUS

### Summary of Bond Counsel Opinion

Bond Counsel are of the opinion that under existing law, interest on the Notes is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the “Code”), Bond Counsel are of the opinion that interest on the Notes will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. Bond Counsel are further of the opinion that the Notes are not “private activity bonds” within the meaning of Section 141(a) of the Code. Accordingly, interest on the Notes is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Notes is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Notes is not exempt from Wisconsin income taxes.

The Code contains certain requirements that must be satisfied from and after the date of issuance of the Notes in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Notes. These requirements relate to the use and investment of the proceeds of the Notes, the payment of certain amounts to the United States, the security and source of payment of the Notes and the use of the property financed with the proceeds of the Notes.

### Notes Purchased at a Premium or at a Discount

The difference (if any) between the initial price at which a substantial amount of the Notes is sold to the public (the “Offering Price”) and the principal amount payable at maturity of such Notes is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a Note, the difference between the two is known as “bond premium;” if the Offering Price is lower than the maturity value of a Note, the difference between the two is known as “original issue discount.”

Bond premium and original issue discount are amortized over the term of a Note on the basis of the owner's yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is treated as a reduction in the amount of tax-exempt interest earned during such period. The amount of original issue discount accruing during each period is treated as interest that is excludable from the gross income of the owner of such Note for federal income tax purposes, to the same extent and with the same limitations as current interest.

Owners who purchase Notes at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the Notes. In addition, owners of Notes should consult their tax advisors with respect to the state and local tax consequences of owning the Notes; under the applicable provisions of state or local income tax law, bond premium and original issue discount may give rise to taxable income at different times and in different amounts than they do for federal income tax purposes.

### Exclusion from Gross Income: Requirements

The Code sets forth certain requirements that must be satisfied on a continuing basis in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Notes. Among these requirements are the following:

**Limitations on Private Use.** The Code includes limitations on the amount of Note proceeds that may be used in the trade or business of, or used to make or finance loans to, persons other than governmental units.

***Investment Restrictions.*** Except during certain “temporary periods,” proceeds of the Notes and investment earnings thereon (other than amounts held in a reasonably required reserve or replacement fund, if any, or as part of a “minor portion”) may generally not be invested in investments having a yield that is “materially higher” (1/8 of one percent) than the yield on the Notes.

***Rebate of Arbitrage Profit.*** Unless the City qualifies for an exemption, earnings from the investment of the “gross proceeds” of the Notes in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the Notes are required to be paid to the United States at periodic intervals. For this purpose, the term “gross proceeds” includes the original proceeds of the Notes, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the Notes.

### **Covenants to Comply**

The City has covenanted to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Notes.

### **Risks of Non-Compliance**

In the event that the City fails to comply with the requirements of the Code, interest on the Notes may become includable in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issue. In such event, the City’s agreements with the owners of the Notes require neither acceleration of payment of principal of, or interest on, the Notes nor payment of any additional interest or penalties to the owners of the Notes.

### **Federal Income Tax Consequences**

Pursuant to Section 103 of the Code, interest on the Notes is not includable in the gross income of the owners thereof for federal income tax purposes. However, the Code contains a number of other provisions relating to the treatment of interest on the Notes that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE NOTES.

***Cost of Carry.*** Owners of the Notes will generally be denied a deduction for otherwise deductible interest on any debt which is treated for federal income tax purposes as incurred or continued to purchase or carry the Notes. As discussed below, special allocation rules apply to financial institutions.

***Corporate Owners.*** Interest on the Notes is generally taken into account in computing the earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Notes is taken into account not only in computing the corporate alternative minimum tax but also the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.

***Individual Owners.*** Receipt of interest on the Notes may increase the amount of social security and railroad retirement benefits included in the gross income of the recipients thereof for federal income tax purposes.

***Certain Blue Cross or Blue Shield Organizations.*** Receipt of interest on the Notes may reduce a special deduction otherwise available to certain Blue Cross or Blue Shield organizations.

***Property or Casualty Insurance Companies.*** Receipt of interest on the Notes may reduce otherwise deductible underwriting losses of a property or casualty insurance company.

***Financial Institutions.*** Financial institutions may be denied a deduction for their otherwise allowable interest expense in an amount determined by reference, in part, to their adjusted basis in the Notes.

***Foreign Personal Holding Company Income.*** A United States shareholder of a foreign personal holding company may realize taxable income to the extent that interest on the Notes held by such a company is properly allocable to the shareholder.

The opinions of Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings and other official interpretations of law in existence on the date the Notes are issued. There can be no assurance that such law or the interpretation thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the Notes are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Notes.

## **STATE TAX MATTERS**

Interest on the Notes is not exempt from State of Wisconsin income or franchise tax.

## **NO DESIGNATION AS QUALIFIED TAX-EXEMPT OBLIGATIONS**

The City will not designate the Notes as “qualified tax-exempt obligations” for purposes of Section 265 (b)(3) of the Code relating to the ability of certain financial institutions (within the meaning of Section 265(b)(5) of the Code) to deduct from income for federal income tax purposes, 80% of the interest expense that is allocable to carrying and acquiring tax-exempt obligations.

## **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the "Rule"), the City has covenanted pursuant to a Resolution adopted by the Common Council to enter into an undertaking (the "Undertaking") for the benefit of holders including beneficial holders of the Notes to provide notices of the occurrence of certain events enumerated in the Rule to certain information repositories or the Municipal Securities Rulemaking Board and to any state information depository. The detail and terms of the Undertaking, as well as the information to be contained in the notices of material events, are set forth in the Continuing Disclosure Certificate to be executed and delivered by the City at the time the Notes are delivered in substantially the form attached hereto as Appendix C. The City has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the City to comply with the Undertaking will not constitute an event of default on the Notes (although holders will have the right to obtain specific performance of the obligations under the Undertaking). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Notes in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Notes and their market price.

## **RATINGS**

The City has requested ratings on the Notes from Fitch Ratings, Moody's Investors Service, Inc. and from Standard & Poor's Ratings Group. Fitch Ratings has assigned a rating of “F1+” on the Notes. Moody's Investors Service, Inc. has assigned a rating of “MIG 1” on the Notes. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. has assigned a rating of “SP-1+” on the Notes.

The ratings, when issued, reflect only the views of the respective ratings agencies, and an explanation of the significance of such rating may be obtained therefrom. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised, either upward or downward, or withdrawn entirely, by the respective agencies, if, in their judgment, circumstances so warrant. A revision or withdrawal of the credit rating could have an effect on the market price of the Notes.

## **FINANCIAL ADVISOR**

Robert W. Baird & Co. has been retained as Financial Advisor to the City in connection with the issuance of the Notes. The Financial Advisor has requested and the City has consented to the Financial Advisor submitting bids for the Notes.

## **UNDERWRITING**

The Notes have been purchased at competitive bidding conducted on August 10, 2006.

The award of \$175,000,000 of the Notes was made to Wachovia Bank, National Association, Charlotte, North Carolina, its co-managers and associates.

The public reoffering yield on the Notes will be detailed on the cover of the Final Official Statement.

## **LEGISLATION**

The City is not aware of any pending legislation that would cause significant adverse consequences to either the Notes, the financial condition of the City or the financial condition of MPS.

## **CLOSING DOCUMENTS AND CERTIFICATES**

Simultaneously with the delivery of and payment for the Notes by the original purchasers thereof, the City will furnish to the original purchasers the following closing documents, in form satisfactory to Bond Counsel:

- (1) a signature and no litigation certificate;
- (2) a tax certificate;
- (3) a certificate of delivery and payment;
- (4) the opinions as to the legality of the Offered Obligations under Wisconsin law and as to the tax-exempt status of the interest thereon for federal income tax purposes rendered by Katten Muchin Rosenman LLP, Chicago, Illinois, and by Hurtado, S.C., Wauwatosa, Wisconsin, Bond Counsel to the City, in substantially the forms as set forth in Appendix B;
- (5) copies of this Official Statement issued in conjunction with the Notes within seven business days after the award of the Notes in accordance with SEC Rule 15c2-12(b)(3);
- (6) a Continuing Disclosure Certificate; and
- (7) a statement to the effect that this Official Statement, to the best of its knowledge and belief as of the date of sale and the date of delivery, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

## **REPRESENTATIONS OF THE CITY**

To the best of our knowledge, the information in this Official Statement does not include any untrue statement of a material fact, nor does the information omit the statement of any material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

## **ADDITIONAL INFORMATION**

Additional information may be obtained from the undersigned City Comptroller upon request.

W. MARTIN MORICS  
City Comptroller and Secretary  
City of Milwaukee  
Public Debt Commission  
City Hall - Room 403  
200 East Wells Street  
Milwaukee, Wisconsin 53202  
(414) 286-3321

/s/ W. Martin Morics  
Comptroller  
City of Milwaukee, Wisconsin

August 10, 2006

## **APPENDIX A**

### **MILWAUKEE PUBLIC SCHOOLS**

#### **Basic Financial Statements Year Ended June 30, 2005 and Independent Auditors' Report**

#### **Selected Sections**

The complete Comprehensive Annual Financial Report  
can be downloaded at the Milwaukee Public School's web page at:

[www.milwaukee.k12.wi.us](http://www.milwaukee.k12.wi.us)

The independent auditor has not been engaged to perform, and has not performed since the date of its report (a portion of which is included herein), any procedures on the financial statements addressed in the report nor on this Official Statement.

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**MILWAUKEE PUBLIC SCHOOLS**  
Comprehensive Annual Financial Report  
Year Ended June 30, 2005

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Milwaukee Public Schools  
Milwaukee, Wisconsin

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Milwaukee Public School ("District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the District's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information and schedules of funding progress on pages 3 through 13 and pages 63 through 65, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Directors  
Milwaukee Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milwaukee Public School's basic financial statements. The combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The financial and statistical information listed in the accompanying table of contents under "Introductory Section and Statistical Section" is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Milwaukee Public Schools. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such information.

*Vishouse, Krause + Company, LLP*

Milwaukee, Wisconsin  
December 16, 2005

# **MILWAUKEE PUBLIC SCHOOLS**

## **Management's Discussion and Analysis**

June 30, 2005

(Unaudited)

### **INTRODUCTION**

This discussion and analysis of the financial performance of Milwaukee Public Schools (MPS or the District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2005. The intent of the management discussion and analysis is to look at the financial performance of MPS as a whole. It should be read in conjunction with the financial statements.

### **FINANCIAL HIGHLIGHTS**

The District's government-wide financial statements reflect the following:

- Total net assets of MPS increased to \$366.8 million at June 30, 2005 from \$352.9 million at June 30, 2004, an increase of \$13.9 million, or 3.9%.
- Total revenues increased to \$1.12 billion for fiscal year 2005 from \$1.10 billion for fiscal year 2004, an increase of 2.0%.
- Total expenses increased to \$1.10 billion for the year ended June 30, 2005, from \$1.06 billion for the year ended June 30, 2004 an increase of 3.5%.

The District's governmental fund financial statements reflect the following:

- Total fund balances of the District's governmental funds decreased \$19.9 million in the 2005 fiscal year. This decrease is primarily due to a timing difference for the Neighborhood School Initiative (NSI) projects. Bond proceeds for NSI projects were received in prior years while significant spending on these projects occurred during fiscal year 2005.
- Total fund balance for all governmental funds was \$140.3 million at June 30, 2005. Of this amount, \$81.7 million was reserved for encumbrances, \$1.5 million was reserved for inventories, \$22.0 million was reserved for self-insurance and prepaid expenditures, \$6.0 million was reserved for School Nutrition and \$29.1 million remains unreserved.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

Below is an outline of the remaining sections of this annual report in the order in which they are presented. Following the outline is a brief description of each section.

#### **1. Management's Discussion and Analysis (this section)**

#### **2. Basic Financial Statements**

- Government-wide Financial Statements
  - Statement of Net Assets
  - Statement of Activities
- Fund Financial Statements
  - Governmental Funds
  - Fiduciary Funds

# MILWAUKEE PUBLIC SCHOOLS

## Management's Discussion and Analysis

June 30, 2005

(Unaudited)

- Notes to Financial Statements

### 3. Required Supplementary Information (RSI)

- Budget-to-Actual Comparison
- Employee Pension Plan Liabilities, Current and Past Service

The **Management's Discussion and Analysis** section discusses the financial performance of MPS during the year ending June 30, 2005. It includes an overview of the financial statements of the District and a report on the budgetary highlights.

The **Basic Financial Statements** section includes both *Government-wide* and *Fund Financial Statements*. *Government-wide financial statements* report information about MPS as a whole, using accounting methods similar to those used by private sector companies. Two government-wide statements are presented. The **statement of net assets** includes all of the District's assets and liabilities of the governmental funds. The District does not have any proprietary funds and the fiduciary funds are not included in the statement of net assets. The **statement of activities** includes all revenues and expenses of the District, irrespective of when cash is actually received or paid out. The intent of these government-wide statements is to present a snapshot of the District's *net assets*, and to provide an explanation of material changes that occurred since the prior year. Net assets—the difference between assets and liabilities—is one way to measure the District's financial strength.

The *fund financial statements* provide detailed information about the District's significant *funds*, rather than MPS as a whole. A *fund* is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, revenues, and expenditures. Funds are created to carry on specific activities or attain certain objectives in accordance with special regulations or limitations. There are three types of funds: governmental, proprietary, and fiduciary. MPS does not have any proprietary funds. Table 1 summarizes various features of each of these funds.

**Table 1**  
**Major Features of MPS' Government-wide and Fund Financial Statements**

	Government-Wide Statements	Fund Statements	
		Governmental Funds	Fiduciary Funds
<b>Scope</b>	Entire MPS entity (not including fiduciary funds)	Activities that are not proprietary or fiduciary; e.g. school operations, capital projects, and debt service	Activities where MPS acts as trustee or agent for another; e.g. employee retirement plans
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>- Statement of net assets</li> <li>- Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>- Balance sheet</li> <li>- Statement of revenues, expenditures, and changes in fund balance</li> </ul>	<ul style="list-style-type: none"> <li>- Statement of fiduciary net assets</li> <li>- Statement of changes in fiduciary net assets</li> </ul>

# MILWAUKEE PUBLIC SCHOOLS

## Management's Discussion and Analysis

June 30, 2005

(Unaudited)

**Table 1**  
**Major Features of MPS' Government-wide and Fund Financial Statements**

	Government-Wide	Fund Statements	
	<u>Statements</u>	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resource focus
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets consumed and liabilities due in the current year, or soon after; no capital assets	All assets and liabilities, both financial and capital, short-term and long-term
<b>Type of inflow/outflow information</b>	All revenues and expenses occurring during the year, regardless when cash is received or paid	Revenues when cash is received by year-end, or soon after; expenditures when goods and services have been received and payment is due by year-end, or soon after	All revenues and expenses occurring during the year, regardless of when cash is received or paid

*Governmental Funds* — Most of the District's basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash flow and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or less financial resources to finance MPS programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship between them.

*Fiduciary Funds* — MPS is the trustee, or fiduciary, for its employees' pension plans. The District is also responsible for other assets that — because of a trust arrangement — can be used only for the trust beneficiaries. MPS is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the government-wide statements because MPS cannot use these assets to finance its operations.

Required supplementary information (RSI) includes a budget-to-actual comparison that provides readers with information about the accuracy with which management was able to project the District's revenue and expenditure categories. In addition, RSI includes information concerning MPS' employee pension plan costs. Two pension-related schedules are included. One schedule shows the District's progress toward funding its *past* service liability. The other is a schedule of employer contributions that focuses on payment of *current* pension fund costs.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

This is the fourth year MPS is providing government-wide financial statements using the full accrual basis of accounting.

## MILWAUKEE PUBLIC SCHOOLS

### Management's Discussion and Analysis

June 30, 2005

(Unaudited)

#### Statement of Net Assets

MPS ended its fiscal year with net assets of \$366.8 million, of which \$475.7 million was invested in capital assets (net of related debt), \$13.5 million was restricted, and (\$122.4) million was an unrestricted deficit. The primary cause of the unrestricted deficit is the pension liability of approximately \$169 million, previously owed to the Wisconsin Retirement System. In November 2003, the MPS Board of School Directors took action to refinance this liability. The full funding allowed by the bond issue will ensure that future employee pension benefits already granted through collective bargaining will be provided.

**Table 2**

#### MILWAUKEE PUBLIC SCHOOLS

##### Condensed Statement of Net Assets

(in thousands)

	Government-wide activities		
	2005	2004	Difference
Capital assets, net	\$ 608,274	\$ 566,157	\$ 42,117
Noncapital assets	264,220	265,619	(1,399)
Total assets	872,494	831,776	40,718
Current liabilities	130,883	107,011	23,872
Noncurrent liabilities	374,775	371,898	2,877
Total liabilities	505,658	478,909	26,749
Net assets:			
Invested in capital assets, net of related debt	475,758	456,937	18,821
Restricted	13,502	9,519	3,983
Unrestricted (deficit)	(122,424)	(113,588)	(8,836)
Total net assets	\$ 366,836	\$ 352,868	\$ 13,968

Total net assets increased by \$14.0 million over the prior year. This change is the result of:

- Assets increasing \$40.7 million due to new building construction and other improvement projects.
- Liabilities increasing \$26.7 million primarily in the area of 'accrued wages' and 'contracts payable.' Accrued wages increased principally due to accrued retroactive pay associated with several bargaining units including that of MPS teachers. The increase in contracts payable is attributable to payments outstanding on Neighborhood School Initiative construction contracts.



# MILWAUKEE PUBLIC SCHOOLS

## Management's Discussion and Analysis

June 30, 2005

(Unaudited)

### Statement of Activities

On a government-wide basis, the District ended fiscal year 2005 with an increase in net assets of \$14.0 million, compared to an increase of \$30.3 million in fiscal year 2004.

**Table 3**  
**MILWAUKEE PUBLIC SCHOOLS**  
Schedule of Revenues and Expenses  
(in thousands)

	<b>Government-wide activities</b>		
	<b>2005</b>	<b>2004</b>	<b>Difference</b>
Program revenues:			
Charges for services	\$ 10,091	\$ 10,719	\$ (628)
Operating grants and contributions	185,228	183,944	1,284
Capital grants and contributions	21,083	17,706	3,377
Total program revenues	216,402	212,369	4,033
General revenues:			
Property taxes	207,442	183,198	24,244
Federal and state aid	690,352	698,644	(8,292)
Gain on sale of property	10	—	10
Interest and investment earnings	1,773	762	1,011
Miscellaneous	1,201	89	1,112
Total general revenues	900,778	882,693	18,085
Total revenues	1,117,180	1,095,062	22,118
Expenses:			
Instruction	652,166	644,448	7,718
Community services	20,560	18,155	2,405
Pupil and staff services	110,035	105,549	4,486
General admission	108,743	116,816	(8,073)
Business services	162,748	140,825	21,923
School nutrition	32,165	31,249	916
Interest on long-term debt	16,245	6,250	9,995
Other	549	1,433	(884)
Total expenses	1,103,211	1,064,725	38,486
Increase (decrease) in net assets	\$ 13,969	\$ 30,337	\$ (16,368)

## **MILWAUKEE PUBLIC SCHOOLS**

### **Management's Discussion and Analysis**

**June 30, 2005**

**(Unaudited)**

- Total revenues increased \$22.1 million due primarily to a 13.2% increase in property taxes. The increase in property taxes was the result of an increase in the District's state-imposed revenue limit, comprised of property taxes and various state aids. Because state aids remained flat year-over-year, property taxes were raised to match the increase in the revenue limit.
- Total expenses increased \$38.5 million in fiscal 2005 primarily in the areas of 'business services' and 'interest on long-term debt.' Business services are higher year-over-year in part because fiscal 2004 included an unusually large amount of new capital assets, which were reported as expenses in the fund financial statements but subtracted in the government-wide financial statements. A large reduction in expenses in fiscal 2004 caused fiscal 2005 to appear high by comparison. Increased interest costs are the result of reporting a full year of interest payments on debt associated with the Neighborhood School Initiative and the pension obligation refinancing. Both debt issues were outstanding only half of fiscal 2004.

## MILWAUKEE PUBLIC SCHOOLS

### Management's Discussion and Analysis

June 30, 2005

(Unaudited)

#### Capital Assets

At June 30, 2005, MPS had \$953.9 million invested in capital assets including land, buildings, leasehold improvements, furniture and equipment, and software. This amount represents a net increase of \$60.9 million from the previous year. The increase came primarily in the area of buildings as new Neighborhood School Initiative projects came on-line. Detailed information can be reviewed in note 5 to the District's financial statements.

#### Change in Capital Assets

(in thousands)

	<b>Beginning balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending balance</b>
Governmental activities:				
Capital assets:				
Land	\$ 29,420	\$ 2,056	\$ 15	\$ 31,461
Construction in progress	57,431	57,409	64,468	50,372
Buildings	746,715	64,623	—	811,338
Leasehold improvements	5,929	7	526	5,410
Furniture and equipment	29,442	1,082	430	30,094
Software	23,995	1,203	—	25,198
Total capital assets	892,932	126,380	65,439	953,873
Accumulated depreciation	(326,775)	(19,281)	(457)	(345,599)
Totals	\$ 566,157	\$ 107,099	\$ 64,982	\$ 608,274

# MILWAUKEE PUBLIC SCHOOLS

## Management's Discussion and Analysis

June 30, 2005

(Unaudited)

### Long-term Debt

At June 30, 2005, long-term debt was \$353.7 million. This amount represents a net increase of \$2.0 million over the previous year. The increase is attributable to new Americans with Disabilities Act (ADA) and TEACH loans. These loans were offset by a number of retirements as shown in Table 5.

**Table 5**

### MILWAUKEE PUBLIC SCHOOLS

#### Change in Long-term Debt and Capital Lease Obligations

(in thousands)

	<u>July 1, 2004</u>	<u>Issuances</u>	<u>Retirements</u>	<u>June 30, 2005</u>
Governmental activities:				
Refinancing for state trust				
fund loans	\$ 1,984	\$ —	\$ 1,284	\$ 700
Americans with Disabilities				
Act loans	8,380	4,583	1,679	11,284
TEACH loan	4,776	6,931	1,471	10,236
Neighborhood School				
Initiative bonds	113,297	—	100	113,197
Qualified Zone Academy bonds	13,406	—	2,050	11,356
Financial and Student				
Tracking note	6,393	—	1,336	5,057
Pension refinancing debt	168,912	—	(1,784)	170,696
MEC/Grand Ave capital lease	33,075	—	2,925	30,150
Other intergovernmental debt	1,477	—	472	1,005
Total debt	<u>\$ 351,700</u>	<u>\$ 11,514</u>	<u>\$ 9,533</u>	<u>\$ 353,681</u>

Trust fund and ADA loans are issued for the purpose of bringing Milwaukee Public Schools into compliance with ADA regulations. This type of borrowing has occurred annually over the last decade and is expected to continue for the foreseeable future.

The TEACH wiring loan program is sponsored by the state of Wisconsin and provides loans to schools and libraries for the purpose of installing the telecommunications wiring infrastructure necessary to provide local area networking and internet connections. This program offers a significant benefit to MPS in that one-half the amount borrowed is eventually forgiven by the state. MPS has entered into two TEACH loan agreements with the state. The first TEACH agreement authorized MPS to borrow up to \$15,000,000. The District borrowed \$9,212,237, leaving \$5,787,763 to lapse. A subsequent TEACH agreement authorized MPS to borrow up to \$14,360,800. At June 30, 2005 the District had used \$5,931,796, leaving \$8,429,004 to lapse. The latter loan agreement expired on July 1, 2005.

## **MILWAUKEE PUBLIC SCHOOLS**

### **Management's Discussion and Analysis**

June 30, 2005

(Unaudited)

The Neighborhood Schools Initiative debt is part of a state of Wisconsin-sponsored program intended to increase the capacity and improve the quality of Milwaukee's neighborhood schools. The outstanding debt is in the form of revenue bonds issued by the Redevelopment Authority of the City of Milwaukee on behalf of MPS, and is secured through bond insurance and a moral obligation pledge by the state of Wisconsin. The first tranche was issued in February 2002 in the amount of \$33.3 million. On November 5, 2003, the second and final tranche of revenue bonds was sold in the amount of \$78,740,000.

The Qualified Zone Academy Bond (QZAB) debt is in the form of lease-purchase agreements collateralized by the furniture and equipment purchased with the proceeds. The QZAB program is sponsored by the Internal Revenue Service (IRS) and provides interest-free capital for the purpose of promoting academic programs in partnership with the business community. MPS used \$2.7 million of QZAB funding authority in August 2003 to support the purchase of equipment and make building improvements at four schools. Interest on the debt is paid by the IRS via tax credits to the lender.

The financial and student-tracking debt is being used to fund the purchase and implementation of two software applications acquired in fiscal year 2003, a financial management system, and a student tracking system for special education.

In December 2003, the city of Milwaukee, in connection with an intergovernmental cooperation agreement, issued \$168,051,136 in pension bonds on behalf of the District to refund pension-related debt for the Wisconsin Retirement System totaling \$165,505,293.

Detailed information can be reviewed in note 7 to the District's financial statements.

### **FUND FINANCIAL STATEMENTS**

Milwaukee Public Schools has two major funds reported on the governmental fund statements. The major funds are the general fund and the construction fund.

- The general fund balance had an increase of \$18.3 million during the period ended June 30, 2005. This increase is in large part the result of actual costs coming in lower than budgeted in the areas of health care and purchased services.
- The construction fund balance decreased by \$36.0 million due primarily to a timing difference attributable to Neighborhood School Initiative projects. That is, NSI bond proceeds were received in fiscal years 2003 and 2004, while significant spending on NSI projects occurred in fiscal year 2005.

# **MILWAUKEE PUBLIC SCHOOLS**

## **Management's Discussion and Analysis**

June 30, 2005

(Unaudited)

### **Notes to Basic Financial Statements**

The notes to basic financial statements supplement the basic financial statements by providing detailed descriptions of the District's significant accounting policies and presenting data that identifies changes that occurred throughout the year.

### **BUDGETARY HIGHLIGHTS**

Annual budgets are prepared on a basis consistent with accounting principals generally accepted in the United States of America for the general, construction, and other nonmajor governmental funds. Annual unencumbered appropriations lapse at fiscal year-end.

In May 2004, the MPS Board of School Directors (the Board) adopted the District's fiscal 2005 budget (July 1, 2004 – June 30, 2005). The adopted budget by necessity used a *projection* of the fiscal 2005 student enrollment. In October 2004, the Board amended the budget to take into account the *actual* student enrollment as measured on the third Friday in September 2004, as required by Wisconsin State Statute. The October amendment process is important to MPS in that its two principal revenue sources, state equalization aid and property taxes, are predicated on actual MPS enrollment.

The October amendment process also incorporates all other changes in revenue and expenditure projections that result from having more current information. The adopted budget, as amended, becomes the District's final budget.

In October 2004, the Board approved a revised 2005 fiscal year balanced budget in the amount of \$1,119,097,069. Including prior year encumbrances and carryover authority, the expenditure budget increased to \$1,275,625,145.

Revenues and expenditures both came within 1% of the adopted budget.

### **Next Year's Budget**

In October 2005, the MPS Board approved a revised 2006 general fund budget of \$1,059,333,603. This represents an increase of \$23 million over the revised 2005 general fund budget. The 2006 budget includes an increase in local property tax revenue of \$6.4 million. Encumbrances and carryovers are not included in this amount.

### **Current Economic Facts and Academic Achievements**

The District's state-imposed revenue limit rose 3.0% in fiscal year 2005. However, wages and benefits rose at an even faster rate, requiring the District to implement cost saving measures and budget cuts. Budget cuts came primarily in central services staffing and programs.

The District's enrollment declined for the 2004/05 school year due in part to demographics, and due in part to competition from private and public schools. As a result of the decline, the Board of School Directors closed three MPS schools for the 2004/05 school year, and the Administration assigned a committee to establish an objective and equitable process for identifying future school closings.

# **MILWAUKEE PUBLIC SCHOOLS**

## **Management's Discussion and Analysis**

June 30, 2005

(Unaudited)

Student poverty continues to increase, with 3 of every 4 students eligible for free or reduced lunch. The Administration continues to identify viable solutions to address the many effects the increasing level of poverty has on MPS students' academic and health needs.

In an effort to better engage students and improve their achievement, the District has two major initiatives underway: 1) expand the number of K-8 schools and, 2) expand the number of small high schools. Both initiatives progressed rapidly during 2004/05, with many positive results such as increases in achievement and attendance.

Results on the Wisconsin Knowledge and Concepts Examinations showed approximately two-thirds of MPS schools with grades 8 and 10 had increases in Reading and Mathematics for 2004/05 compared to the preceding year. The District has narrowed the achievement gap with the state in four of the last five years in Reading and Mathematics.

The percentage of MPS third graders scoring proficient or advanced on the Wisconsin Reading Comprehension Test rose by 5 points to 71% in 2004/05, a rise of 21 percentage points in just 4 years. Nearly two-thirds of all MPS elementary schools posted gains in 2004/05 over the prior year.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide citizens, taxpayers, parents, students, investors, and creditors with a general overview of MPS' finances and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional financial information, you can contact:

**Milwaukee Public Schools**

**Department of Finance**

**5225 West Vliet Street**

**Milwaukee, WI 53208**

**Or visit our website at: [www.milwaukee.k12.wi.us](http://www.milwaukee.k12.wi.us)**

**MILWAUKEE PUBLIC SCHOOLS**

## Statement of Net Assets

June 30, 2005

	<b>Governmental activities</b>
<b>Assets</b>	
Current assets:	
Cash and investments (note 2)	\$ 124,341,860
Accounts receivable, net (note 3)	3,640,982
Due from other governments (note 3)	57,563,727
Inventory (note 1(f))	1,467,006
Prepaid expenses	18,971,817
Total current assets	<u>205,985,392</u>
Noncurrent assets:	
Restricted cash and investments (note 1)	52,199,163
Deposits for self-insurance (note 1(k))	3,079,902
Deferred charges—bond issuance costs (note 1(l))	2,956,105
Capital assets not being depreciated (note 5)	81,833,304
Capital assets being depreciated, net (note 5)	526,440,586
Total noncurrent assets	<u>666,509,060</u>
Total assets	<u>872,494,452</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable and other current liabilities	115,060,695
Accrued interest payable on long-term liabilities	1,942,091
Current portion of long-term obligations (note 7)	13,880,552
Total current liabilities	<u>130,883,338</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations (note 7)	<u>374,775,319</u>
Total liabilities	<u>505,658,657</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	475,757,763
Restricted for debt service	13,502,379
Unrestricted	(122,424,347)
Total net assets	<u>\$ 366,835,795</u>

See accompanying notes to basic financial statements.



**MILWAUKEE PUBLIC SCHOOLS**

Statement of Activities

Year ended June 30, 2005

Functions/programs	Expenses	Program revenues			Net (expenses) revenues and changes in net assets
		Charges for services	Operating grants and contributions	Capital grants and contributions	
Governmental activities:					
Instruction	\$ 652,166,070	3,130,444	105,071,902	20,355,818	(523,607,906)
Support services:					
Community services	20,560,706	1,930,856	7,318,142		(11,311,708)
Pupil and staff services	110,034,688	—	3,583,626	—	(106,451,062)
General, administration, and central services	108,742,800	—	—	726,957	(108,015,843)
Business services	162,748,023	281,329	44,078,275	—	(118,388,419)
School nutrition services	32,165,131	4,747,456	25,176,146	—	(2,241,529)
Interest on long-term debt	16,245,344	—	—	—	(16,245,344)
Other	548,565	—	—	—	(548,565)
Total support services	451,045,257	6,959,641	80,156,189	726,957	(363,202,470)
Total school district	\$ 1,103,211,327	10,090,085	185,228,091	21,082,775	(886,810,376)
General revenues:					
Taxes:					
Property taxes levied for general purposes:					180,704,104
Property taxes levied for construction					12,266,054
Property taxes levied for debt service					6,469,806
Property taxes levied for community services:					8,002,455
Federal and state aid not restricted to a specific purpose					
General (equalization aid)					574,203,749
Other					116,147,856
Interest and investment earnings					1,773,508
Gain on sales of property					10,200
Other					1,200,921
Total general revenues					900,778,653
Change in net assets					13,968,277
Net assets—Beginning of Year					352,867,518
Net assets—Ending of Year					\$ 366,835,795

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS**

Balance Sheet

Governmental Funds

June 30, 2005

<b>Assets</b>	<b>General</b>	<b>Construction</b>	<b>Nonmajor governmental funds</b>	<b>Total governmental funds</b>
Deposits with the City of Milwaukee and other cash (note 2)	\$ 92,701,751	31,640,109	—	124,341,860
Receivables, net:				
Accounts (note 3)	3,640,982	—	—	3,640,982
Due from other governmental units (note 3)	45,991,142	—	11,572,585	57,563,727
Due from other funds (note 4)	34,553,721	38,357,603	9,640,496	82,551,820
Total receivables	84,185,845	38,357,603	21,213,081	143,756,529
Restricted cash and investments (note 1)	41,440,223	10,758,940	—	52,199,163
Inventories (note 1(g))	1,460,834	—	6,172	1,467,006
Prepaid expenditures (notes 1(g))	18,971,817	—	—	18,971,817
Deposits for self-insurance (note 1(l))	3,079,902	—	—	3,079,902
Total assets	\$ 241,840,372	80,756,652	21,219,253	343,816,277
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 9,657,971	159,272	609,980	10,427,223
Contracts payable	7,549,095	1,462,726	—	9,011,821
Accrued salaries and wages	54,864,572	—	—	54,864,572
Deferred Revenue (note 1(j))	5,893,236	—	—	5,893,236
Accrued claims for self-insurance (note 9)	32,981,515	—	—	32,981,515
Accrued pension payable (note 10)	7,060,619	—	—	7,060,619
Other accrued expenditures	714,945	—	—	714,945
Due to other funds (note 4)	23,018,111	37,002,638	22,531,071	82,551,820
Total liabilities	141,740,064	38,624,636	23,141,051	203,505,751
Fund balances:				
Reserved for:				
Encumbrances	24,690,959	56,968,723	—	81,659,682
Inventories	1,460,834	—	6,172	1,467,006
Self-insurance deposits and prepaid expenditures	22,051,719	—	—	22,051,719
School Nutrition	5,962,801	—	—	5,962,801
Unreserved:				
Designated by board for subsequent year's expenditures (note 8)	45,933,995	—	—	45,933,995
Undesignated, reported in:				
Capital projects fund	—	(14,836,707)	—	(14,836,707)
Special revenues funds	—	—	(1,927,970)	(1,927,970)
Total fund balances	100,100,308	42,132,016	(1,921,798)	140,310,526
Total liabilities and fund balances	\$ 241,840,372	80,756,652	21,219,253	343,816,277

See accompanying notes to basic financial statements.

# MILWAUKEE PUBLIC SCHOOLS

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2005

Total fund balances—governmental funds		\$	140,310,526
Amounts reported for governmental activities in the statement of net assets are different because:			
Bond costs of issuance are capitalized at the government-wide level and amortized over the life of the related bonds			2,956,105
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds:			
Cost of capital assets	\$	953,873,507	
Accumulated depreciation		<u>(345,599,617)</u>	
Net capital assets			608,273,890
Grant receivables that are not collected within 90 days after year end are not considered to be available to pay for the current period's expenditures and, therefore, are deferred in the funds			5,893,234
Long-term liabilities (including bonds payable) are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
Bonds and notes payable		(438,948,510)	
Bonds premium		(1,157,353)	
Discount on capital appreciation bonds		116,574,787	
Capital leases payable		(30,150,000)	
Accrued bond interest payable		(1,942,091)	
Compensated absences payable (vacation and sick leave)		(29,835,290)	
Workers' compensation claims payable		(1,886,822)	
Self-insurance claims payable		(740,307)	
Life insurance benefits and other long-term liabilities		<u>(2,512,374)</u>	
Total long-term debt liabilities			<u>(390,597,960)</u>
Total net assets—government activities	\$		<u><u>366,835,795</u></u>

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS**  
Statement of Revenues, Expenditures, and Changes in Fund  
Balances—Governmental Funds  
Year ended June 30, 2005

	<u>General</u>	<u>Construction</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
Revenues:				
Property tax levy	\$ 188,706,559	12,266,054	6,469,806	207,442,419
Lunchroom sales	—	—	4,747,456	4,747,456
Other local sources	10,192,204	3,358,760	—	13,550,964
State aid:				
Equalization aid	574,203,739	—	—	574,203,739
Special classes	39,419,557	—	—	39,419,557
Integration	38,661,528	—	—	38,661,528
Other state aid	50,958,075	—	1,380,347	52,338,422
Federal aid:				
Education Consolidation Improvement Act	69,124,917	—	—	69,124,917
School nutrition services	—	—	24,531,108	24,531,108
Erate refunds	3,296,638	1,213,715	—	4,510,353
Intergovernmental aid from the City of Milwaukee	—	14,265,000	—	14,265,000
Other federal aid	54,584,105	—	23,741,682	78,325,787
Interest and investment earnings	784,655	1,013,650	—	1,798,305
Total revenues	<u>1,029,931,977</u>	<u>32,117,179</u>	<u>60,870,399</u>	<u>1,122,919,555</u>
Expenditures:				
Instructional services:				
Undifferentiated curriculum	418,322,709	—	—	418,322,709
Regular and other curriculum	99,908,858	—	—	99,908,858
Special curriculum	108,491,974	—	4,793,878	113,285,852
Total instructional services	<u>626,723,541</u>	<u>—</u>	<u>4,793,878</u>	<u>631,517,419</u>
Community services	20,591,303	—	—	20,591,303
Pupil and staff services	89,185,984	—	20,239,041	109,425,025
General and school building administration	108,422,951	—	—	108,422,951
Business services	153,790,477	66,940,733	—	220,731,210
School nutrition services	—	—	32,006,084	32,006,084
Debt service:				
Principal	3,657,500	—	7,226,855	10,884,355
Interest	8,106,051	4,897,374	952,385	13,955,810
Other	1,162,108	—	—	1,162,108
Total expenditures	<u>1,011,639,915</u>	<u>71,838,107</u>	<u>65,218,243</u>	<u>1,148,696,265</u>
Excess of revenues over (under) expenditures	<u>18,292,062</u>	<u>(39,720,928)</u>	<u>(4,347,844)</u>	<u>(25,776,710)</u>
Other financing sources (uses) (note 7):				
Long-Term Debt Issued	—	3,735,000	2,154,478	5,889,478
Refunding bond debt issued	—	847,676	—	847,676
Payment for refunded bonds debt	—	(847,676)	—	(847,676)
Proceeds from the Sale of Land	—	25,200	—	25,200
Total other financing sources (uses), net	<u>—</u>	<u>3,760,200</u>	<u>2,154,478</u>	<u>5,914,678</u>
Net change in fund balances	18,292,062	(35,960,728)	(2,193,366)	(19,862,032)
Fund balances:				
Beginning of year	81,808,246	78,092,744	271,568	160,172,558
End of year	<u>\$ 100,100,308</u>	<u>42,132,016</u>	<u>(1,921,798)</u>	<u>140,310,526</u>

See accompanying notes to basic financial statements.

# MILWAUKEE PUBLIC SCHOOLS

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances—total governmental funds \$ (19,862,032)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense

Capital outlay reported in governmental fund statements

\$ 61,340,119

Depreciation expense reported in the statement of activities

(19,281,298)

Amount by which capital outlays are greater than depreciation  
in the current period

42,058,821

The net effect of miscellaneous transactions involving capital assets  
(i.e., sales, trade-ins, and disposals) is to increase net assets

57,910

Because some grants will not be collected for several months after the  
District's fiscal year-end, they are not considered "available" revenues  
and are deferred in the governmental funds

(5,750,154)

Bond, note, and capital lease proceeds are reported as financing sources in governmental funds and thus  
contribute to the change in fund balance. In the statement of net assets, however  
issuing debt increases long-term liabilities and does not affect the statement of  
activities. Similarly, repayment of principal is an expenditure in the governmental  
funds, but reduces the liability in the statement of net assets.

Debt issued:

Bonds and notes

(11,513,466)

Repayments:

Bonds and notes

10,884,358

Payment for refunded intergovernmental debt

857,485

Net adjustment

228,377

Under the modified accrual basis of accounting used in the governmental funds,  
expenditures are not recognized for transactions that are not normally paid  
with expendable available financial resources. In the statement of activities  
however, which is presented on the accrual basis, expenses and liabilities  
are reported regardless of when financial resources are available. In addition  
interest on long-term debt is not recognized under the modified accrual  
basis of accounting until due, rather than as it accrues.

Net increase in accrued interest payable

(81,072)

Accretion of interest on capital appreciation bonds

(2,308,346)

Amortization of bond premium

99,884

Amortization of bond issuance costs

(163,314)

Net increase in compensated absences payable (vacation and sick pay)

(2,732,406)

Net decrease in workers' compensation claims payable

1,779,910

Net decrease in general insurance claims payable

589,271

Net increase in life insurance benefits payable

51,428

(2,764,645)

Change in net assets of governmental activities

\$ 13,968,277

See accompanying notes to basic financial statements.

# MILWAUKEE PUBLIC SCHOOLS

## Statement of Fiduciary Net Assets

June 30, 2005

<b>Assets</b>	<b>Pension trusts</b>	<b>Private purpose trust</b>	<b>Agency</b>
Deposits with City of Milwaukee and other cash (note 2)	\$ —	530,808	5,022,679
Investments (note 2)	113,958,315	1,322,352	—
Receivables	144,687	—	—
Total assets	114,103,002	1,853,160	5,022,679
<b>Liabilities</b>			
Accounts payable	1,241,314	—	—
Due to student organizations	—	—	5,022,679
Total liabilities	1,241,314	—	5,022,679
<b>Net Assets</b>			
Held in trust for:			
Supplemental pension benefits	112,861,688	—	—
Endowments	—	1,853,160	—
Total net assets	\$ 112,861,688	1,853,160	—

See accompanying notes to the basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS**  
Statement of Changes in Fiduciary Net Assets  
Year ended June 30, 2005

	<b>Pension trusts</b>	<b>Private purpose trust</b>
Additions:		
Employer contributions	\$ 16,459,891	—
Participants contributions	1,001	—
Private donations	—	350,705
Interest income	—	22,683
Investment income, net of expenses	9,311,566	—
Total additions	<u>25,772,458</u>	<u>373,388</u>
Deductions:		
Benefits paid to participants or beneficiaries	14,706,291	—
Distribution of participant contribution accounts	1,163,632	—
Administrative expenses	169,133	—
Scholarships and awards	—	296,234
Total deductions	<u>16,039,056</u>	<u>296,234</u>
Changes in net assets	9,733,402	77,154
Net assets—beginning of year	<u>103,128,284</u>	<u>1,776,006</u>
Net assets—end of year	<u>\$ 112,861,686</u>	<u>1,853,160</u>

See accompanying notes to the basic financial statements.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

### (1) Summary of Significant Accounting Policies

The financial statements of the Milwaukee Public Schools (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies used by the District are described below.

#### (a) *Reporting Entity*

The District was established on February 3, 1846, and operates under Chapter 119 of the Wisconsin State Statutes. The District is the largest school district in Wisconsin. The District, governed by a nine-member elected school board, provides elementary, secondary, vocational, and special education services through grade 12 to residents of the city of Milwaukee, Wisconsin (the City).

The District receives funding from local, state, and federal government sources and must comply with the concomitant requirements of these funding source entities.

The reporting entity for the District is based upon criteria set forth by GASB Statement No. 14, *The Financial Reporting Entity*. Under this pronouncement, the financial reporting entity consists of (a) the primary government, which is controlled by a separately elected governing body that is legally separate and is fiscally independent, and (b) organizations for which the primary government is financially accountable. All of the accounts of the District comprise the primary government.

The financial statements of the District are excluded from the City's financial statements because the District operates with a separate governing board that is not under the control of the City. The City, however, performs the following services for the District, as prescribed under Wisconsin State Statutes:

- Administers the property tax levy adopted by the school board and collects and remits the property taxes to the District
- Acts as the treasurer for the major portion of the District's cash
- Issues debt for the benefit of the District for the purchase of sites and buildings

This report includes all of the funds of the District. The reporting entity for the District consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is



## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. This report does not contain any component units.

#### (b) *Basis of Presentation*

***Government-wide Statements***—The statement of net assets and the statement of activities present financial information about the District as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

***Fund Financial Statements***—The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds; each is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

The District reports the following major governmental funds:

**General Fund:** The general fund is the general operating fund of the District. It is comprised of two taxing entities that were established by Wisconsin State Statutes and are used to account for all financial revenues and expenditures of the District except those required to be accounted for in other funds or taxing entities.

**Construction Fund:** The construction fund is used to account for financial resources to be used for the acquisition or construction of capital facilities and the additions to and remodeling of existing buildings. The District has only one activity unit within the construction fund for which property taxes are levied to finance various capital expenditures.

The District reports the following nonmajor governmental funds:

**Special Revenue Funds** – used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

TEACH Wisconsin Programs

Categorically Aided Programs

School Nutrition Services

**Debt Service Fund** – used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Additionally, the District reports the following fund types:

**Pension Trust Funds:** The pension trust funds account for the accumulation of resources for pension benefit payments under two early retirement plans maintained by the District for qualified teachers and administrators.

**Private-Purpose Trust Fund:** The private-purpose trust funds are:

- 1) Donations that are received pursuant to a trust agreement that restricts the use of the donations to the extent of the interest or other earnings of the fund. These trusts are maintained by the District for the purpose of scholarships for students.
- 2) Donations that are received pursuant to a trust agreement that restricts the use of the donation to a specified purpose but allows for the principal and interest to be expended. These trusts are maintained by the District to include scholarships, donations toward specified activities within schools, and trusts to support extracurricular programs.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

**Agency Fund:** The agency fund accounts for the accumulation and expenditure of individual school activity funds. The sources of these funds include sales of supplies to students, residuals from fund-raising activities, and funds raised by the schools to support field trips or school-related activities. The principal at each school is responsible for accounting for all school activity funds and individual schools are required to maintain uniform accounting records.

**(c) *Measurement Focus and Basis of Accounting***

The government-wide and fiduciary fund statements (excluding agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. For the pension trust funds, plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The agency fund is also reported using the modified accrual basis of accounting. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after the end of the fiscal year except for property taxes, which must be collected within 60 days after year-end. Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants, and charges for services. Other revenue is recorded when received. Expenditures are recorded when the fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences that are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District may fund certain programs by a combination of specific cost-reimbursement grants, categorical funds, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

All governmental activities (i.e. government-wide financial statements) of the District follow Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, Accounting Principles Board opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB statements. The District has elected not to follow FASB pronouncements issued after November 30, 1989.

**(d) *Restricted Cash and Investments***

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net assets.

**(e) *Receivables***

General accounts receivable have been adjusted for all known uncollectible accounts. An allowance for uncollectible accounts is reported at year end.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “due to and from other funds.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

**(f) *Investments***

The District has adopted investment policy. Provisions of the policy are discussed in Note (2).

Investments, including investments of the pension trust funds, are reported at fair value based on quoted market prices. Short-term investments are reported at cost, which approximates fair value. Investments principally consist of U.S. Government securities, mortgage-backed securities, money market mutual funds, and investments in the State of Wisconsin Fixed Retirement Investment Trust Fund (Trust Fund). The fair value of investments in the Trust Fund is the same as the value of the pooled shares. Although not subject to direct regulators’ oversight, the Trust Fund is administered in accordance with the provisions of Section 25.50 of the Wisconsin State Statutes. Purchases and sales of securities are recorded on a trade-date basis. Net investment income in the Trust Fund consists of realized and unrealized gains and losses and investment income.

**(g) *Inventories and Prepaid Items***

Inventories are valued at average cost. Inventories in the governmental fund types are recorded as expenditures when consumed rather than when purchased. Donated United States Department of Agriculture (USDA) commodities are recorded as revenues and assets in

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

school nutrition services at the fair value when originally donated by the USDA. When used by the schools, the commodities are expensed and the related assets are reduced.

The reserve for inventories on the balance sheet of the governmental funds is equal to the amount of inventories to indicate that a portion of the fund balance is not available for future expenditure.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**(h) Capital Assets**

Capital assets are reported at actual cost or estimated costs. Donated assets are reported at the estimated fair market value at the time received. Capital assets are depreciated using the straight-line method over their estimated lives. Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<b>Capitalization threshold</b>	<b>Estimated useful life</b>
Buildings	\$ 5,000	50 years
Furniture and equipment	5,000	5 – 20 years
Vehicles	5,000	5 – 15 years
Computers and related equipment	5,000	5 years
Major computer/software projects	50,000	7 years

**(i) Property Taxes**

The aggregate amount of property taxes to be levied for school purposes is determined according to provisions of Chapter 120 of the Wisconsin State Statutes. Property taxes for the District are adopted by the Board by early November and are certified to the City for levy and collection.

The District's property taxes are levied annually prior to December 31, are administered by the City for the District based on the assessed (taxable) values as of January 1 of that calendar year, and are recognized as District revenue in the fiscal year they are levied. The levy becomes a lien against property on January 1. The taxes are due January 31, but may be paid in 10 monthly installments to the City from January through October. All unpaid taxes as of June 30 are purchased by the City.

**(j) Deferred Revenue**

Governmental funds deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Deferred revenues include amounts received from grants that have not yet been earned.

**(k) *Compensated Absences***

District employees are granted vacation, compensatory time, and sick leave benefits in varying amounts in accordance with the provisions of union contracts and District policies. In the event of retirement, death, or resignation of an employee, the District is obligated to pay for all unused vacation days. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Sick leave benefits are available for subsequent use and, in certain situations, a portion vests upon retirement. A liability for sick pay has been calculated using the vesting method in which leave amounts for both employees who currently are eligible to receive termination payments upon retirement and other employees who are expected to become eligible in the future to receive such payments are included.

**(l) *Insurance Deposits***

The District has recorded deposits in the general fund for self-funded health insurance and current life insurance obligations and a reserve of fund balance aggregating \$3,079,902 at June 30, 2005 to provide for payment of future claims.

**(m) *Bond Premiums, Discounts, and Issuance Costs***

In the government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Discounts for capital appreciation bonds and notes (i.e. zero coupon debt) are netted against the face amount of the debt. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

**(n) Net Assets**

In the government-wide financial statements, equity is displayed in three components as follows:

*Invested in Capital Assets, Net of Related Debt*—This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, plus unspent proceeds.

*Restricted*—This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

*Unrestricted*—This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**(o) Fund Balance Reservations and Designations**

In the fund financial statements, the District classifies its fund balance as follows:

- Reserve—The fund balance indicates the portion of the fund balance that has been legally segregated for specific purposes.
- Unreserved—The designated fund balance indicates the portion of the fund balance for which the District has made tentative plans.
- Unreserved—The undesignated fund balance indicates the portion of the fund balance that is available for use in future periods.

**(p) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses/expenditures for the reporting period. Actual results could differ from those estimates.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

**(q) *New Accounting Pronouncements***

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 44 which establishes guidance for the reporting of the statistical section of a government's comprehensive annual financial report (CAFR). Standards that previously addressed the contents of a government's statistical section were in place since 1980 without significant change or modification. The new standards are intended to improve consistency and comparability in reporting, reflect the significant changes that have taken place in government finance, including GASB Statement No. 34 and to provide clear guidance regarding the applicability of the standards for the statistical section among all types of governmental entities. The requirements of this statement would be effective for the statistical section prepared by the District for its 2006 CAFR.

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The District currently provides post-retirement life and healthcare benefits in accordance with union contracts that are accounted for on the pay-as-you-go basis. The District is currently analyzing the impact of adopting this new standard. The District will implement Statement No. 45 during the year ended June 30, 2008.



# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

### (2) Deposits and Investments

#### District's Deposits and Investments, Exclusive of Pension Trusts

	Carrying Value	Bank Balance
Cash at the City	\$ 119,728,280	\$ 119,728,280
Demand deposits	10,130,804	19,357,119
Money market funds	45,218,544	45,218,544
U.S. Treasury Notes	5,102,950	5,102,950
U.S. Treasury Strips	2,619,314	2,619,314
Mortgage-backed securities	596,970	596,970
Certificate of Deposit	20,000	20,000
Total Cash and Investments	<u>\$ 183,416,862</u>	<u>\$ 192,643,177</u>

#### Reconciliation to financial statements

##### Per statement of net assets

Unrestricted cash and investments	\$ 124,341,860
Restricted cash and investments	52,199,163

##### Per statement of net assets – Fiduciary Funds

Private purpose trust	1,853,160
Agency	<u>5,022,679</u>

Total Cash and Investments	<u>\$ 183,416,862</u>
----------------------------	-----------------------

**Credit risk** is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To limit credit risk, MPS restricts the commitment of funds to only those investments authorized by Wisconsin state statute 66.0603 including the following:

- Time deposits with maturities of not more than 3 years
- Bonds or securities issued or guaranteed as to principal and interest by the federal government or by a commission, board or other instrumentality of the federal government
- The state of Wisconsin local government pooled investment fund
- Bonds or securities of any county, city, drainage district, vocational or technical college, village town, school district in Wisconsin, local exposition district, local professional baseball park district, or the University of Wisconsin Hospitals and Clinics Authority
- Fully collateralized repurchase agreements

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

- Any security that matures within 7 years and has a credit rating which is the highest or second highest rating assigned by Standard & Poor's corporation, Moody's investor service, or other similar nationally recognized rating agencies.
- No-load securities of open-end, registered, management investment companies or investment trusts.

The District has funds invested in money market funds, U.S. Treasury notes, U.S. Treasury strips, mortgage-backed securities, and certificates of deposit. Of the \$45,218,544 invested in money market funds, \$42,588,591 is invested in U.S. Treasury securities with an implied triple-A credit rating, while the remaining \$2,629,953 is invested in an institutional money market fund also with a triple-A rating. The District's \$5,102,950 investment in U.S. Treasury strips has an implied triple-A credit rating. The \$596,970 invested in mortgage-backed securities is rated triple-A.

**Interest rate risk** is defined as the probability that changes in interest rates will adversely affect the fair value of an investment. Milwaukee Public Schools uses weighted average maturity as a method for monitoring interest rate risk. The District does not have a formal investment policy limiting investment maturities as a means of managing its exposure to fair value losses resulting from rising interest rates.

As of June 30, 2005 the District had the following investments, shown with their maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Money market funds	\$45,218,544	45,218,544			
U.S. Treasuries	5,102,950	1,929,495	3,173,455		
U.S. Treasury strips	2,619,314	223,364	680,260	1,715,690	
Mortgage-backed securities	596,970	91,238	505,732		
	<u>\$53,537,778</u>				

**Custodial credit risk** for *deposits* is the risk that, in the event of failure of a depository financial institution, the District will not be able to recover its deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The District does have a collateralization policy concerning this risk, and the policy requires collateralization of all uninsured deposits.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

At year-end the District's demand deposit balance (exclusive of funds held and controlled by the treasurer of the City) was \$19,357,119. Of the bank balance, \$6,976,805 was covered by the Federal Depository Insurance Corporation (FDIC) and the state of Wisconsin Public Deposit Guarantee Fund and \$12,380,314 was uninsured and uncollateralized and outside of the District's collateralization policy.

Funds held and controlled by the treasurer of the City are insured by the FDIC and the Wisconsin Public Deposit Guarantee Fund, or collateralized through collateralization agreements in the name of the city. Securities underlying the collateralization agreements are held in the City's name by the trust departments of depository institutions.

#### **Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan**

The Trustees of the Administrators Plan have adopted a Statement of Investment Policy (the Policy). It articulates asset allocation targets; guidelines for interest rate risk, credit risk, and concentration of credit risk for separately managed portfolios; and performance benchmarks. Under Wisconsin statutes, equity funds other than investments in the State of Wisconsin Employee Trust Funds (SWIB funds), are subject to the statutory limitation that they may not exceed 50% of the market value of the fund. The Administrators Plan has no equity investments other than in the SWIB Fixed and Variable funds. The asset class targets in the Policy target equities in the SWIB Variable Fund to equal 150% of the amount in Fixed Income, with the remainder of the portfolio allocated to the SWIB Fixed Fund. The Policy Target for Fixed Income is the sum of: (1) assets invested as part of the 1989 bond dedication program; (2) six months benefit payments, net of payments from the employee contribution account and payments from the 1989 bond dedication program, plus six months administrative expense; and (3) assets relating to employee contributions. The portfolio is rebalanced toward the Policy targets quarterly. For 2005, the SWIB Fixed Fund asset-mix targets were 39% to U.S. Stocks, 29% to Fixed Income, 20% to International Stocks, 5% to Real Estate, and 7% to Alternative Investments, and the SWIB Variable Fund asset-mix targets were 79% to U.S. Stocks, 20% to International Stocks, and 1% to Alternative Investments. Under the SWIB Investment Policy, the Fixed and Variable Fund asset allocations will be reviewed monthly for potential rebalancing. For the SWIB Funds, when a major liquid asset class (i.e., Total Public Equities, Total Public Fixed Income) exceeds plus or minus 10% of its target allocation, a rebalancing exercise will be initiated. The Administrators Plan's fund (the "Fund") has two investment managers: the State of Wisconsin Investment Board (SWIB) and M&I Investment Management Corp. Each investment manager is responsible for managing the portion of the Fund assets under its control in accordance with its policy and guidelines. M&I is also responsible for managing its Administrators Plan portfolios in compliance with the guidelines adopted by the Trustees. Milwaukee Public Schools completes a comprehensive review of the Fund relative to the Policy on an annual basis.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

#### A. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Milwaukee Public Schools uses both duration and weighted average maturity as methods of monitoring interest rate risk. The following schedule displays the weighted average maturity of the investments by type of investment as of June 30, 2005.

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
SWIB Fixed and Variable Funds	39% of the combined SWIB funds are invested in the fixed income with a weighted average maturity of 5.51	\$ 33,481,459
Money market accounts	45 days	\$ 313,058
U.S. Treasury notes and Government Bonds	8.05 years	\$ 1,675,574
Mortgage-backed securities	3.69 years	\$ 3,602,593
Non-government obligations	4.50 years	\$ 2,624,797

Note: On June 30, 2005, SWIB's Fixed Fund and Variable Fund had \$62.5 Billion and \$5.9 Billion in assets, respectively. The Administrators Plan had a smaller percentage of its assets in the SWIB Fixed Fund and, consequently, its percentage of SWIB Funds in fixed income is lower than the percentage noted earlier. As of June 30, 2005, the Plan's assets were invested 46% in the SWIB Fixed Fund, 35% in the SWIB Variable Fund, and 19% in portfolios managed by M&I Investment Management Corp. For SWIB, the duration of each U.S. Fixed Income portfolio shall remain within 15% of the assigned benchmark's duration. For the bond portfolios for the payment of benefits and expenses and employee contributions, the duration will be within a range of 50% to 150% of the duration of the benchmark index.

#### B. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule displays the credit quality percentage distributions of the fixed income investments in the SWIB Fixed and Variable Funds and in the separate accounts managed by M&I Investment Management Corp. on June 30, 2005. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in AAA rating below although they are considered to be without risk.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

<u>Ratings*</u>	<u>SWIB</u>	<u>M&amp;I</u>
P-1	19%	4%
AAA	36%	68%
AA	11%	6%
A	19%	14%
BBB	3%	8%
BB	4%	0%
B	2%	0%
CCC	0%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Not-Rated	6%	0%

\*As defined by Moody's Bond Ratings

For SWIB's Fixed Fund's U.S. Fixed Income Portfolios, each portfolio shall maintain an average quality rating of A or better. Non-Investment Grade securities shall not exceed 15% of each portfolio's market value. For SWIB's Global Bond Portfolio, overall portfolio quality must be maintained at an average rating of A or better. Non-Investment Grade securities shall not exceed 10% of the portfolio's market value. For the other separately managed portfolios, the average portfolio quality must be A or better. Bonds purchased or owned must have a minimum quality rating of Baa (Moody's) or BBB (Standard and Poor's).

#### C. Custodial Credit Risk

The retirement funds do not have a deposit or investment policy specifically related to custodial credit risk.

*Deposits* - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the fund will not be able to recover deposits that are in the possession of an outside party. On June 30, 2005, SWIB had uninsured and uncollateralized deposits totaling \$112,126,300, that were held in SWIB's custodian's nominee name. In addition, SWIB held a number of time deposits with foreign financial institutions with a fair value of \$55,750,433, all of which were uncollateralized and uninsured. In total, these deposits represented 0.2% of the combined assets of the SWIB Fixed and Variable Funds.

*Investments* - Custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, the fund will not be able to recover the value of an investment or collateral securities that are in the possession of a third party. As of June 30, 2005, the fund did not have any investment securities exposed to custodial credit risk.

#### D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a fund's investment in a single issuer. SWIB limits concentrations of credit risk by establishing investment guidelines for individual portfolios or groups of portfolios that generally restrict

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

issuer concentrations to 5% or less in any one company and 40% or less in issues trading under Rule 144A. For the other separately managed portfolios, the policy guidelines specify that individual securities (excluding U.S. Government and Agency securities) in a separate portfolio should not exceed 7% of the value of that portfolio. None of the securities in these portfolios represented more than 5% of the market value of the Fund.

#### E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of June 30, 2005, \$6.8 billion of the SWIB Fixed and Variable Funds' currency exposure was denominated in foreign currency. For the other separately managed portfolios, there was no foreign currency exposure.

The risk definitions noted above are from the Governmental Accounting Standards Board. The data, risk descriptions, and guidelines for the SWIB Funds were provided by SWIB and the data and risk information for the other investment types was provided by M&I Investment Management Corp.

#### **Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers**

The Trustees of the Teachers Plan have adopted a Statement of Investment Policy (the Policy). It articulates asset allocation targets; guidelines for interest rate risk, credit risk, and concentration of credit risk for separately managed portfolios; and performance benchmarks. Under Wisconsin statutes, equity funds other than investments in the State of Wisconsin Employee Trust Funds (SWIB funds), are subject to the statutory limitation that they may not exceed 50% of the market value of the fund. The Teachers Plan has no equity investments other than the SWIB Fixed and Variable Fund. The asset class targets in the Policy target equities in the SWIB Variable Fund to equal 150% of the amount in Fixed Income (outside of the SWIB Funds), with the remainder of the portfolio allocated to the SWIB Fixed Fund. The Policy target for Fixed Income is: (1) assets invested as part of the 1989 bond dedication program; and (2) six months benefit payments, net of payments from the 1989 bond dedication program, plus six months administrative expenses. The portfolio is rebalanced toward the Policy targets quarterly. For 2005, the SWIB Fixed Fund asset-mix targets were 39% to U.S. Stocks, 29% to Fixed Income, 20% to International Stocks, 5% to Real Estate, and 7% to Alternative Investments, and the SWIB Variable Fund asset-mix targets were 79% to U.S. Stocks, 20% to International Stocks, and 1% to Alternative Investments. Under the SWIB Investment Policy, the Fixed and Variable Fund asset allocations will be reviewed monthly for potential rebalancing. For the SWIB Funds, when a major liquid asset class (i.e., Total Public Equities, Total Public Fixed Income) exceeds plus or minus 10% of its target allocation, a rebalancing exercise will be initiated. The Teachers Plan Fund (the "Fund") has two investment managers: the State of Wisconsin Investment Board (SWIB) and M&I Investment Management Corp. Each investment manager is responsible for managing the portion of the Fund assets under its control in accordance with its policy and guidelines. M&I is also responsible for managing its Teachers Plan portfolios in compliance with the

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

guidelines adopted by the Trustees. Milwaukee Public Schools completes a comprehensive review of the Fund relative to the Policy on an annual basis.

#### A. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Milwaukee Public Schools uses both duration and weighted average maturity as methods of monitoring interest rate risk. The following schedule displays the weighted average maturity of the investments by type of investment as of June 30, 2005.

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
SWIB Fixed and Variable Funds	39% of the combined SWIB funds are invested in the fixed income with a weighted average maturity of 5.51	\$ 68,399,248
Money market accounts	45 days	\$ 1,008,560
U.S. Treasury notes	4.85 years	\$ 952,721
Government Bonds		\$ -
Mortgage-backed securities	1.96 years	\$ 758,006
Non-government obligations	4.12 years	\$ 1,142,299

Note: On June 30, 2005, SWIB's Fixed Fund and Variable Fund had \$62.5 Billion and \$5.9 Billion in assets, respectively. The Teaches Plan had a smaller percentage of its assets in the SWIB Fixed Fund and, consequently, its percentage of SWIB Funds in fixed income is lower than the percentage noted earlier. As of June 30, 2005, the Plan's assets were invested 80% in the SWIB Fixed Fund, 15% in the SWIB Variable Fund, and 5% in portfolios managed by M&I Investment Management Corp. For SWIB, the duration of each U.S. Fixed Income portfolio shall remain within 15% of the assigned benchmark's duration. For the bond portfolio for the payment of benefits and expenses, the duration will be within a range of 50% to 150% of the duration of the benchmark index.

#### B. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule displays the credit quality percentage distributions of the fixed income investments in the SWIB Fixed and Variable Funds and in the separate accounts managed by M&I Investment Management Corp. on June 30, 2005. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in AAA rating below although they are considered to be without risk.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

<u>Ratings*</u>	<u>SWIB</u>	<u>M&amp;I</u>
P-1	19%	27%
AAA	36%	45%
AA	11%	13%
A	19%	12%
BBB	3%	3%
BB	4%	0%
B	2%	0%
CCC	0%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Not-Rated	6%	0%

\*As defined by Moody's Bond Ratings

For SWIB's Fixed Fund's U.S. Fixed Income Portfolios, each portfolio shall maintain an average quality rating of A or better. Non-Investment Grade securities shall not exceed 15% of each portfolio's market value. For SWIB's Global Bond Portfolio, overall portfolio quality must be maintained at an average rating of A or better. Non-Investment Grade securities shall not exceed 10% of the portfolio's market value. For the other separately managed portfolios, the average portfolio quality must be A or better. Bonds purchased or owned must have a minimum quality rating of Baa (Moody's) or BBB (Standard and Poor's).

#### C. Custodial Credit Risk

The retirement funds do not have a deposit or investment policy specifically related to custodial credit risk.

*Deposits* - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the fund will not be able to recover deposits that are in the possession of an outside party. On June 30, 2005, SWIB had uninsured and uncollateralized deposits totaling \$112,126,300, that were held in SWIB's custodian's nominee name. In addition, SWIB held a number of time deposits with foreign financial institutions with a fair value of \$55,750,433, all of which were uncollateralized and uninsured. In total, these deposits represented 0.2% of the combined assets of the SWIB Fixed and Variable Funds.

*Investments* - Custodial credit risk for investments is the risk that, in the event of the failure of counterparty to a transaction, the fund will not be able to recover the value of an investment or collateral securities that are in the possession of a third party. As of June 30, 2005, the fund did not have any investment securities exposed to custodial credit risk.



# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

### D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a fund's investment in a single issuer. SWIB limits concentrations of credit risk by establishing investment guidelines for individual portfolios or groups of portfolios that generally restrict issuer concentrations to 5% or less in any one company and 40% or less in issues trading under Rule 144A. For the other separately managed portfolios, the policy guidelines specify that individual securities (excluding U.S. Government and Agency securities) in a separate portfolio should not exceed 7% of the value of that portfolio. None of the securities in these portfolios represented more than 5% of the market value of the Fund.

### E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of June 30, 2005, \$6.8 billion of the SWIB Fixed and Variable Funds' currency exposure was denominated in foreign currency. For the other separately managed portfolios, there was no foreign currency exposure.

The risk definitions noted above are from the Governmental Accounting Standards Board. The data, risk descriptions, and guidelines for the SWIB Funds were provided by SWIB and the data and risk information for the other investment types was provided by M&I Investment Management Corp.

### (3) Receivables

Receivables as of June 30, 2005 for the District's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Nonmajor funds</u>	<u>Total</u>
Receivables:			
Accounts	\$ 3,828,045	—	3,828,045
Intergovernmental—federal	36,265,932	11,572,585	47,838,517
Intergovernmental—state	9,725,210	—	9,725,210
Gross receivables	49,819,187	11,572,585	61,391,772
Less allowance for uncollectibles	(187,063)	—	(187,063)
Total receivables, net	<u>\$ 49,632,124</u>	<u>11,572,585</u>	<u>61,204,709</u>

### (4) Interfund Transactions

Interfund borrowings are reflected as "due from/to other funds" on the accompanying financial statements.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

The following balances as of June 30, 2005 represent due to/from balances among all funds:

<b>Due from other funds</b>				
	<b>General fund</b>	<b>Construction fund</b>	<b>Nonmajor fund</b>	<b>Total</b>
Due to other funds:				
General fund	\$ 21,663,146	1,354,965	—	23,018,111
Construction fund	—	37,002,638	—	37,002,638
Nonmajor funds	12,890,575	—	9,640,496	22,531,071
Total	\$ 34,553,721	38,357,603	9,640,496	82,551,820

Balances resulted from the timing difference between the dates that interfund goods and services are provided or reimbursable expenditures occur.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

### (5) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 29,419,811	2,056,074	15,000	31,460,885
Construction in progress	<u>57,431,287</u>	<u>57,409,130</u>	<u>64,467,997</u>	<u>50,372,420</u>
Total capital assets, not being depreciated	<u>86,851,098</u>	<u>59,465,204</u>	<u>64,482,997</u>	<u>81,833,305</u>
Capital assets, being depreciated:				
Buildings	746,714,897	64,623,383	—	811,338,280
Leasehold improvements	5,929,283	6,872	526,336	5,409,819
Furniture and equipment	29,442,151	1,082,171	429,913	30,094,409
Software	<u>23,995,020</u>	<u>1,202,675</u>	<u>—</u>	<u>25,197,695</u>
Total capital assets, being depreciated	<u>806,081,351</u>	<u>66,915,101</u>	<u>956,249</u>	<u>872,040,203</u>
Less accumulated depreciation for:				
Buildings	(293,028,097)	(13,527,537)	—	(306,555,634)
Leasehold improvements	(83,228)	(382,267)	—	(465,495)
Furniture and equipment	(22,611,030)	(1,857,729)	(456,971)	(24,011,788)
Software	<u>(11,052,935)</u>	<u>(3,513,765)</u>	<u>—</u>	<u>(14,566,700)</u>
Total accumulated depreciation	<u>(326,775,290)</u>	<u>(19,281,298)</u>	<u>(456,971)</u>	<u>(345,599,617)</u>
Total capital assets, being depreciated	<u>479,306,061</u>	<u>47,633,803</u>	<u>499,278</u>	<u>526,440,586</u>
Capital assets, net	<u>\$ 566,157,159</u>	<u>107,099,007</u>	<u>64,982,275</u>	<u>608,273,891</u>

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

Depreciation expense for governmental activities for the year ended June 30, 2005 was charged to functions/programs as follows:

Governmental activities:	
Instruction	\$ 16,522,523
Community services	101,666
Pupil and staff services	721,780
General, administration and central services	653,449
Business services	1,060,450
School nutrition	159,047
Other	62,383
	<hr/>
Total depreciation	\$ 19,281,298
	<hr/>

#### (6) Short-term Borrowings

The City issued short-term revenue anticipation notes on behalf of the District in the amount of \$172,000,000 in August 2004. These notes were issued with interest rates of 4% and 6%. The notes matured September 1, 2005. The debt was repaid during June 2005 from the District's equalization aid allocations received from the state government.

#### (7) Long-term Obligations

The City school bonds, notes, and capital lease obligations outstanding at June 30, 2005 totaled \$449,624,716. Of this total, \$95,943,638 represents school bonds and notes that will be repaid by the City using the City's property tax levy. As the District does not have an obligation to repay these bonds and notes from its own property tax levy, the debt is not reflected in the District's long-term obligations. The remaining balance of \$353,681,078 represents capital lease obligations, bonds and promissory notes, the debt service of which is being reimbursed by the District to the City from the District's property tax levy. Since the District does have an obligation to repay this debt under intergovernmental cooperation agreements with the City, this debt is reflected in the District's long-term obligations.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

Long-term obligations of the District are as follows:

	<u>Original amount</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee:						
Refinancing for state trust loans, 4.5% to 5.75%, due in annual installments through March 2006	\$ 15,000,000	1,984,059	—	1,283,860	700,199	700,199
American with Disabilities Act loans:						
4.5% – 4.65%, due in annual install- ments to December 2007	2,000,000	900,000	—	210,000	690,000	220,000
3.5% – 4.25%, due in annual install- ments to December 2008	605,000	332,750	—	60,500	272,250	63,525
4.75% – 5.375%, due in annual install- ments to June 2009	300,000	200,000	—	20,000	180,000	20,000
4.74% – 5.625%, due in annual install- ments to September 2015	2,000,000	1,599,752	—	133,416	1,466,336	133,304
3.59%, due in annual installments to September 2016	3,095,000	2,682,016	—	619,000	2,063,016	206,492
3.74%, due in annual installments to March 2017	1,205,000	1,044,108	—	481,471	562,637	80,446
4.0 – 5.0%, due in annual installments to September 2017	660,000	615,958	—	87,994	527,964	44,042
4.0 – 5.0%, due in annual installments to February 2019	350,000	335,000	—	—	335,000	—
4.0 – 5.0%, due in annual installments to February 2014	670,000	670,000	—	67,000	603,000	67,000
4.0 – 5.0%, due in annual installments to September 2020	4,582,676	—	4,582,676	—	4,582,676	—
TEACH loan, 5.0%, due in annual install- ments to March 2012	15,144,033	4,776,312	6,930,790	1,470,618	10,236,484	1,544,148
Neighborhood Schools Initiative Bonds (NSI), 3.5% – 4.875%, due in annual installments to August 2023	112,040,000	112,040,000	—	—	112,040,000	—
Plus: Premium on issuance	1,357,121	1,257,237	—	99,884	1,157,353	—
QZAB—Qualified Zone Academy Bonds, 0%, due in annual installments to August 2019	16,219,000	13,406,456	—	2,049,676	11,356,780	2,129,354
Financial & Student Tracking Systems— 3.74% – 6.24% note, due in annual installments to September 2008	8,000,000	6,393,226	—	1,335,806	5,057,420	1,330,806
Pension debt refinancing:						
Capital appreciation note, due in annual installments beginning April 1, 2005 through April 1, 2023	46,715,000	46,420,000	—	525,000	45,895,000	25,000
Less: Discount	(25,232,986)	(24,605,382)	—	(1,267,145)	(23,338,237)	—
Capital appreciation bonds, due in annual installments beginning April 1, 2026 through April 1, 2041	110,525,000	110,525,000	—	—	110,525,000	—
Less: Discount	(94,805,878)	(94,277,751)	—	(1,041,201)	(93,236,550)	—
Pension bonds, variable interest rate “auction rate”, interest due in semi- annual installment, principal due at maturity on October 1, 2043	130,850,000	130,850,000	—	—	130,850,000	—
Other intergovernmental notes	4,437,000	1,477,250	—	472,500	1,004,750	482,475
Capital lease—MEC/Grand Avenue	34,475,000	33,075,000	—	2,925,000	30,150,000	3,000,000
Total intergovernmental cooperation agreement debt		<u>351,700,991</u>	<u>11,513,466</u>	<u>9,533,379</u>	<u>353,681,078</u>	<u>10,046,791</u>

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2005</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee (from previous page)	\$ 351,700,991	11,513,466	9,533,379	353,681,078	10,046,791
Accrued compensated absences	27,102,884	11,275,173	8,542,767	29,835,290	2,604,642
Workers' compensation claims	3,666,732	2,067,570	3,847,480	1,886,822	874,245
General insurance claims	1,329,578	432,255	1,021,526	740,307	46,774
Life insurance benefits	2,278,751	—	51,428	2,227,323	308,100
Liability for other long-term benefits	285,051	—	—	285,051	—
Total long-term obligations	<u>\$ 386,363,987</u>	<u>25,288,464</u>	<u>22,996,580</u>	<u>388,655,871</u>	<u>13,880,552</u>

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Claims and judgments typically have been liquidated from the general fund.

The District has recognized a liability of \$874,245 as of June 30, 2005 in the governmental funds for workers' compensation claims that were due as of year-end. These amounts are not included in general long-term liabilities above. Accordingly, the total liability for workers' compensation claims was \$2,761,067 as of June 30, 2005.

Aggregate cash flow requirements for the retirement of the intergovernmental cooperation agreement debt (excluding the capital lease obligations) as of June 30, 2005 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ended June 30:			
2006	\$ 7,306,400	13,668,416	20,974,816
2007	6,544,625	12,821,470	19,366,095
2008	8,414,107	13,509,598	21,923,705
2009	8,319,391	12,553,720	20,873,111
2010	7,849,715	12,629,003	20,478,718
2011 – 2015	42,293,077	64,411,099	106,704,176
2016 – 2020	60,174,866	62,857,165	123,032,031
2021 – 2025	69,246,329	50,629,330	119,875,659
2026 – 2030	45,740,001	40,765,415	86,505,416
2031 – 2035	66,990,000	50,707,269	117,697,269
2036 – 2040	90,145,001	64,344,067	154,489,068
2041 – 2045	25,925,000	4,056,127	29,981,127
Total	<u>\$ 438,948,512</u>	<u>402,952,679</u>	<u>841,901,191</u>

Interest on the \$130,850,000 variable rate pension debt (auction rate securities) included in the schedule of future payments included in the above schedule is based upon an auction to occur approximately every 35 days. The interest rate as of June 30, 2005 was 3.15%.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

The District leases land and buildings with a historical cost and accumulated amortization of \$36,057,061 and \$1,786,528, respectively, under capital lease arrangements. Future minimum lease payments under these capital leases at June 30, 2005 are as follows:

Fiscal year ended June 30:	
2006	\$ 3,908,473
2007	3,913,473
2008	3,906,573
2009	3,910,973
2010	3,908,762
2011 – 2014	<u>15,637,008</u>
Total minimum lease payments	35,185,262
Less amount representing interest	<u>(5,035,262)</u>
Present value of minimum lease payments	<u>\$ 30,150,000</u>

The maximum allowable amount of City debt (including school debt) outstanding at any time shall not be greater than 5% of the total equalized taxable property in the City (Wisconsin State Statute Chapter 67.03). Wisconsin State Statute Chapter 119.49 further authorizes referendum-approved bonding in an additional amount equivalent to 2% of the equalized taxable property for school capital purposes. The total equalized taxable property in the City for calendar year 2005 was \$26,236,832,000 and the 5% debt limit was \$1,311,841,600. No referendum-approved debt is outstanding at June 30, 2005.

#### ***Current Refunding of Debt***

In June 2005, the City issued Series 2005 A5 General Obligation bonds which included refunding of three of the District's Americans with Disabilities Act (ADA) loans, specifically the maturities dated September, 2016 in the original amounts of \$3,095,000; the maturity dated March, 2017 in the original amount of \$1,205,000; and the maturity dated September, 2017 in the original amount of \$660,000. Savings that resulted from the refunding are as follows:

Cash flow requirements to service previous ADA debt	\$ 1,260,581
Less cash flow requirements for new debt	<u>1,241,098</u>
Net savings from refunding	<u>\$ 19,483</u>

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

#### ***Interest Rate Swap Agreement***

*Objective of the interest rate swap.* As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in December 2003, the District entered into interest rate swap agreements in connection with the \$130,850,000 Taxable Pension Funding Bonds, 2003 Series D (variable-rate bonds). The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed rate of 5.56%.

*Terms.* The bonds and the related swap agreements mature on October 1, 2043 and the swap's aggregate notional amount of \$130,850,000 matches the \$130,850,000 par amount of variable-rate bonds. The swaps were entered into at the same time the bonds were issued (December 2003). Starting in fiscal year 2024, the notional value of the swap and the principal amount of the bonds decline until the debt is completely retired. Under the swaps, the District pays the counterparty a fixed payment of 5.56% and receives a variable payment computed as the London Interbank Offered Rate (LIBOR) plus 20 basis points (0.20%). Conversely, the bond's variable-rate coupons closely track LIBOR.

	<u>Terms</u>	<u>Rates</u>
Interest rate swap (as of 6/30/2005):		
Fixed payment to counterparty	Fixed	5.56%
Variable payment from counterparty	LIBOR + 20 bps	<u>(3.34)%</u>
Net interest rate swap payments		2.22%
Variable-rate bond coupon payments	Auction Rate	<u>3.15%</u>
Synthetic interest rate on bonds		<u>5.37%</u>

*Fair value.* As of June 30, 2005, the swaps had an aggregate negative fair value of \$15,689,447 because interest rates have decreased since execution of the swaps. The swap's negative fair value may be countered by reductions in total interest payments required on the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

*Credit risk.* As of June 30, 2005, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the District would be exposed to credit risk in the amount of the derivative's fair values. The swap counterparties were rated AA- and A+ by Standard & Poor's and Aa3 and A1 by



# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

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Moody's Investors Service as of June 30, 2005. To mitigate the potential for credit risk, if the AA-/Aa3 counterparty's credit quality falls below AA- by Standard & Poor's, Aa3 by Moody's Investors Service, and AA- by Fitch Ratings, the fair value of the swap above \$100,000 will be fully collateralized by the counterparty. The obligation of the A+/A1 counterparty is collateralized above a \$2,500,000 fair value. Collateral is posted with the trustee of the bonds.

*Basis risk.* The swaps expose the District to basis risk should the relationship between LIBOR and the auction rate diverge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (5.56%) and the synthetic rate as of June 30, 2005 (5.37%). If a change occurs that results in the rates' moving farther apart, the expected cost savings may not be realized. Since inception, the difference between LIBOR and the auction rate has ranged from -.05% to +0.23%, and averaged +.05%. As of June 30, 2005, the auction rate was 3.15%, whereas the effective LIBOR under the swaps was 3.14%.

*Termination risk.* The District or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. A swap may be terminated by the District if the counterparty's credit quality rating falls below "BBB-" as issued by Standard & Poor's or "Baa3" as issued by Moody's Investors Service. If a swap is terminated, the variable-rate bonds will no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

*Swap payments and associated debt.* Using rates as of June 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-rate bonds		Interest rate	Total
	Principal	Interest	swaps, net	
Fiscal year ended June 30:				
2006	\$ —	4,007,150	2,743,343	6,750,493
2007	—	4,407,865	2,985,343	7,393,208
2008	—	4,007,150	2,702,925	6,710,075
2009	—	4,407,865	3,005,552	7,413,417
2010	—	4,007,150	2,723,134	6,730,284
2011 – 2015	—	20,837,182	14,160,296	34,997,478
2016 – 2020	—	20,837,182	14,160,296	34,997,478
2021 – 2025	12,575,000	20,843,645	14,155,225	47,573,870
2026 – 2030	31,250,000	16,370,081	11,127,058	58,747,139
2031 – 2035	31,250,000	11,410,596	7,756,235	50,416,831
2036 – 2040	31,050,000	6,464,084	4,389,408	41,903,492
2041 – 2045	24,725,000	1,531,131	1,044,819	27,300,950
Totals	\$ 130,850,000	119,131,081	80,953,634	330,934,715

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

#### (8) Fund Balance

**Designated for Subsequent Year's Expenditures**—The unreserved fund balance of the general fund is \$45,933,995 at June 30, 2005. This unreserved balance includes \$78,591,303 designated to partially fund school operating expenditures during the period July 1 through December 31, 2005.

Based on recent operating experience, management anticipates that approximately \$443,414,984 will be required to fully cover the anticipated school operations operating expenditures during the period July 1 through December 31, 2005. In addition to the fund balance designated for subsequent year's expenditures, approximately \$311,326,000 of state aids will be used to fund operating expenditures through December 31, 2005.

The board has established a formula to identify the amount of unreserved fund balance required to fund the six months of the subsequent year's school operations property tax levy. The purpose of this designation of fund balance is to provide working capital until state aids and other payments from federal agencies are received.

The formula established by this action, and the application thereof as of June 30, 2005, is as follows:

General fund unreserved fund balance	\$ 45,933,995
Amount required to fund six months of the subsequent year's property tax levy:	
Current year's school operations tax levy (\$191,168,065) multiplied by a ratio of subsequent year's tax days from July 1 to December 31 (74) to total calendar school year days (180)	<u>78,591,303</u>
General fund undesignated fund balance deficiency	<u><u>\$ (32,657,308)</u></u>

#### (9) Risk Management

The District is exposed to various types of risk of loss including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. Also included are risks of loss associated with providing health, dental, and life insurance benefits to employees and retirees.

The District provides health insurance benefits to employees and retirees through a self-insured health maintenance organization and a self-insured comprehensive indemnity/PPO plan. The District does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. Life insurance benefits are provided for active and retired employees through an insured life insurance program. Life insurance costs that exceed certain rates are funded by the District.

The District provides dental insurance benefits through a fully insured dental maintenance organization and through a self-insured indemnity plan. The District does not purchase stop-loss

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

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insurance for its self-insured dental indemnity plan. The District is fully self-insured for workers' compensation benefits and does not purchase stop-loss insurance.

The District purchases commercial property insurance, auto liability insurance, errors and omissions insurance, and excess liability insurance. The District assumes a \$250,000 self-insured retention for any one loss or occurrence under its self-insured general liability program. The District purchases excess liability insurance for its general liability that provides per-occurrence and aggregate protection. The District is fully self-insured for environmental-related liabilities and purchases no excess environmental liability insurance.

There were no significant changes in the insurance coverage from coverage provided in the prior year for any of the above-described risks. Settled claims from insured losses have not exceeded commercial insurance coverage for each of the past three years.

A liability for claims is reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The claim liabilities also include estimated costs for claim administration fees and outside legal and medical assistance costs. The liability for claims and judgments is reported in the general fund.

Changes in the balance of claim liabilities during the past two years are as follows:

<b>Year ended June 30</b>		
	<b>2005</b>	<b>2004</b>
Beginning of year liability	\$ 41,601,617	36,992,000
Current year claims and changes in estimate	184,190,756	183,665,617
Claim payments	(187,718,129)	(179,056,000)
End of year liability	<u>\$ 38,074,244</u>	<u>41,601,617</u>

The District has recognized the liability for health and dental insurance, which totaled \$32,060,496 and \$32,676,915 as of June 30, 2005 and 2004, respectively, in the general fund. The District has also recognized a liability of \$874,245 and \$1,364,421 as of June 30, 2005 and 2004, respectively, in the general fund for workers' compensation claims that were due as of the respective year-end. All other claims liabilities are considered to be long-term liabilities and are recognized in the government-wide financial statements.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

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#### (10) Retirement Plans

**Retirement Plans**—The District has two supplemental defined benefit retirement plans covering substantially all certificated employees (mainly teachers, principals, and assistant principals) and administrative classified employees. These plans were established to supplement the pension benefits of the District employees participating in the Wisconsin Retirement System and the Employees' Retirement System of the City of Milwaukee. The District currently contributes to both plans to provide for payment of current service costs and to fund prior service costs.

**Wisconsin Retirement System**—All eligible District employees (certificated employees, principally teachers) participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit public employee retirement system (PERS). All permanent certificated employees expected to work over 440 hours a year (teachers) are eligible to participate in the WRS. Covered employees in the general/teacher category are required by statute to contribute 5.6% of their salaries to the plan for calendar year 2004. The District pays all employer and principally all employee (with the exception of some substitute teachers) required contributions to the plan. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for the District's employees covered by the WRS for the year ended December 31, 2004 was \$395,083,000; the District's total payroll was \$533,381,000. The total required contribution for the year ended December 31, 2004 was \$38,718,000, which consisted of \$16,593,000, or 4.2% of payroll, from the District and \$22,125,000, or 5.6% of payroll, from the District on behalf of the employees. The District issued bonds in the amount of \$168.051 million through the Redevelopment Authority of the City and the City to fund the pension-related debt to the WRS for the unfunded accrued liability for pension service, which reduced the WRS contribution rate effective January 1, 2004 by 2%. The amount contributed equaled the required contribution. Total contributions for the years ending December 31, 2003 and 2002 were \$44,561,000 and \$39,883,000, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 are entitled to receive retirement benefits. Employees may retire at age 55 and receive actuarially reduced benefits. For employees actively enrolled in WRS as of January 1, 2000 or after, retirement benefits are calculated as 1.765% of final average earnings for each year of creditable service and 1.6% for creditable service after December 31, 1999. Final average earnings are the average of the employee's three highest years of earnings. Employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested. The WRS also provides death and disability benefits for employees. Eligibility for, and the amount of all benefits, is determined under Chapter 40 of the Wisconsin State Statutes.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

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The WRS issues a publicly available annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

The WRS uses the “frozen initial liability actuarial valuation method” in establishing employer contribution rates. Under this method, the unfunded actuarial accrued liability (pension-related debt) is affected only by the monthly amortization payments, compounded interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. All actuarial gains and losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. Employer’s pension-related debt for prior service cost was being amortized over a 40-year period beginning January 1, 1990. As per WRS’s annual financial report—GASB Statement No. 27 note disclosure for the year ended December 31, 2003, the District’s pension-related debt to the WRS for the unfunded accrued actuarial liability for prior service has been paid in full. The payoff resulted from issuance of \$168.051 million pension bonds by the District through the Redevelopment Authority of the City and the City.

**Employees’ Retirement System of the City of Milwaukee**—All eligible District employees (classified employees, principally non-teachers) participate in the Employees’ Retirement System of the City (the System), a cost-sharing, multiple-employer, defined benefit public employee retirement system (PERS). Part-time classified employees (defined by the System as 12-month employees who work less than 1,040 hours per year and 10-month employees who work less than 760 hours per year) who are eligible under adopted rules and regulations and who have evidenced their intent to join the System and all full-time classified employees (defined by the System as employees who work 2,080 hours a year for non-teachers and 1,520 hours for 10-month school year teachers) are eligible to participate in the System. Covered employees in the general employee category are required to contribute 5.5% of specified rates of compensation without overtime as agreed upon in past labor negotiations. The District pays all employer and substantially all of the employee required contributions to the System, as stipulated in Chapter 36 of the City charter. Due to the global pension settlement, employees eligible for enrollment on or after January 1, 2000 may consent to the global pension settlement and participate in the System combined fund. The consenting employees are required to pay 1.6% of their pensionable earnings for the first eight years from the enrollment date. Also, employees have the option to object to the global pension settlement. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. The System uses the projected unit credit actuarial cost method to determine employer contribution rates.

The payroll for the District’s employees covered by the System for the year ended December 31, 2004 was \$111,331,622; the District’s total payroll was \$533,381,000. The total required contribution including retroactive adjustments for the year ended December 31, 2004 was \$6,316,000, or 5.7% of covered payroll, from the District on behalf of the employees and equaled the required contribution. Total contributions for the years ending December 31, 2003 and 2002 were \$6,512,000 (includes retro payments of \$299,000) and \$5,814,000 (including retro payments of \$364,000), respectively, equal to the required contributions for each year.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

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Employees who retire at or after age 60, or who retire at age 55 and have completed 30 years of creditable service, are entitled to receive a retirement benefit. The System provides a service retirement benefit equal to 2% of the member's final average salary times the total number of years of all creditable service, limited to 70% of final average salary. Benefits are fully vested upon completion of four years of service. All active employees as of January 1, 2000 shall receive a one-time 5% bonus payable in a single lump sum upon retirement or death to employee's beneficiary. Active employees enrolled between January 1, 2000 and June 27, 2000 and who consent to the global pension settlement or enrolled on or after June 28, 2000 shall make a biweekly employee contribution of 1.6% of their pensionable earnings to pay for their cost of living adjustment (COLA) improvement upon completion of the first eight years of employments. The COLA shall be 1.5% annually beginning after the 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> anniversary after retirement and 2% after the 6<sup>th</sup> year of the employee's retirement or death. Upon completion of eight years of service, employees terminating covered employment may withdraw their funds and forfeit all rights to any subsequent benefit. The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 36 of the City charter.

The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the City, City Hall, 200 East Wells Street, Room 603, Milwaukee, WI 53202-3567.

#### ***Supplemental Retirement Plans***

##### **(a) Plan Descriptions and Funding Policies**

###### **Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan**

The plan, a single-employer pension trust fund, is a contributory, defined benefit pension plan established to provide benefits after early retirement that will supplement the pension benefits provided by the WRS and the System. The plan was originally established, effective January 1, 1978, pursuant to a collective bargaining agreement between the District and the Administrators and Supervisors Council, Inc. (ASC). Eligibility for, and the amount of all benefits, is determined under the provisions of the plan document. The plan is administered by an administrative committee under the direction of the Milwaukee Board of School Directors (MBSD).

In order to participate in the plan, an employee must be an administrative, supervisory, or professional staff employee of the District who is in the collective bargaining unit represented by the ASC, an exempt employee excluded by the ASC bargaining contract, an employee of the District who is appointed pursuant to Wisconsin State Statute Sec.119.32 (3), or any other employee who is identified as a covered participant by the District through an employment contract between such employee and the MBSD. Such employees become participants in the plan on the later of the effective date of the plan or the date they become a participant in the WRS. Certain classified members represented by ASC, any exempt employee excluded by the ASC bargaining contract and covered by the System, and certain psychologists who elected to remain in the plan after June 30, 1980 are also eligible for participation.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

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Participants are eligible for retirement benefits provided they have made three years of participant contributions and have eight or more years of vesting service. The plan provides for unreduced benefits at age 60 and for reduced benefits between ages 55 and 60. For participants who retire between ages 60 and 65 under the System or under the WRS, a special supplemental benefit, as defined, shall be paid until the retiree attains age 65. Benefits are paid in the form of monthly payments based on years of service and average monthly compensation for the three highest fiscal years of earnings preceding the date of retirement to a maximum benefit for this plan and either the System or WRS of 70% of average monthly compensation. The benefit paid under this plan for a participant whose benefit is related to the WRS shall be reduced by the amount of the WRS benefit paid. Wisconsin Act 11 directly affects the plan by decreasing the benefits paid and increasing the funded status of the plan. The actuarial value for fiscal year 2002 was finalized with recognition of the impact of Wisconsin Act 11 and the total actuarial gain determined by the plan's actuary was \$6,326,664, of which a \$1,875,500 gain was allocated in fiscal years 2005 and 2004. In the meantime, benefits continue to be paid by the plan and adjusted (reduced) to reflect Wisconsin Act 11. The total actuarial gain allocated was \$2,813,250 as of June 30, 2005.

In consideration of the reduced benefits to be paid by the ASC plan as a result of Wisconsin Act 11, the District signed an agreement with the ASC to amend the ASC plan effective July 1, 2003 as follows. The District received more than the required 95% of signed waivers and the board approved the agreement on June 24, 2004.

- Transfer the benefit formula under the teachers plan to the ASC plan for those individuals who have prior MPS teaching service after July 1, 1982 and are eligible to receive a benefit from the teachers plan. Such individuals will have the option of electing either the teacher or ASC benefit formula.
- Eliminate employee contributions to the ASC plan.
- Close the ASC plan to anyone who is not a covered employee as of June 30, 2003 and previous employees that are rehired after June 30, 2003.
- Eliminate the suspension of benefits provision in the ASC plan and replace it with a new provision that suspends benefits paid from the ASC plan if the retired annuitant is rehired as a covered employee and elects to participate as an active employee under the WRS.

The amendments to the ASC plan have been incorporated into the July 1, 2003 actuarial valuation. These amendments resulted in an increase to the actuarial accrued liability of \$4,973,000 per year as of July 1, 2003 and an increase to the fiscal years 2005 and 2004 required District (employer) contributions of \$737,000.

In fiscal year 2005, the definition of "Year of Benefit Service" of the Plan was amended to provide for the addition of the following at the end of such definition:

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

For a covered employee who was an active participant in the Plan on or after July 1, 2004 and who:

- Became a covered employee on or after July 1, 1982; and
- Was covered under the MTEA-teacher collective bargaining unit and under the WRS on or after July 1, 1982, and
- Is vested under the Teachers Plan, and
- Has consented in writing to the amendment of the Plan as provided in a Negotiating Note between the Board and the ASC dated June 24, 2003.

A covered employee shall continue to be credited with the Years of Benefit Service without giving effect to Years of Benefit Service provisions of the Teachers Plan, for the periods beginning on and after July 1, 2004, except for the purpose of computing the Alternate Benefit for certain Teachers Plan participants as a result of Wisconsin Act 11 discussed above.

During fiscal year 2005, the Plan has retroactively paid retirees that were eligible for Teacher's Plan benefit formula and had retired on or after January 1, 2000 under the ASC plan for benefits that, if chosen by the retiree, would have been under the Teachers Plan benefit formula.

The plan also provided for disability benefits to vested participants if employment is terminated between ages 55 and 65 by reason of total and permanent disability, as approved by the WRS. Upon the death of an active participant who is not eligible for any other form of benefit under the plan, a lump-sum death benefit of the balance of the participant's employee contribution account, including interest, is provided to the participant's beneficiary.

The District maintains a separate "member contribution account" for each participant. Annually, as of June 30, the portion of investment income of the fund attributable to the participants' contribution is credited to the respective member contribution accounts. If a participant leaves covered employment or dies, accumulated employee contributions, plus related investment earnings, are refunded to the employee or designated beneficiary based on their election. Classified employees are not required to make member contributions under the plan.

Effective July 1, 2003, Participants are no longer required to make contributions to the Plan and the employer shall pay 100% of required plan contributions.

The plan issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. That report can be obtained by writing the Milwaukee Public Schools, Department of Human Resources—Benefits and Insurance Services Division, 5225 West Vliet Street, Milwaukee, WI 53208-2698.



## **MILWAUKEE PUBLIC SCHOOLS**

### **Notes to Basic Financial Statements**

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#### **Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers**

The plan, a single-employer pension trust fund, is a defined benefit pension plan established to provide benefits after early retirement that will supplement the pension benefits provided by the WRS. The plan was originally established, effective July 1, 1982, pursuant to a collective bargaining agreement between the District and the Milwaukee Teachers' Education Association (MTEA). Eligibility for, and the amount of all benefits, is determined under the provisions of the plan document. The plan is administered by the MBSD.

To be eligible for participation, an employee must be a teacher of the District who is in the collective bargaining unit represented by the MTEA and who is participating as an active employee in the WRS. Such employees shall become participants in the plan on the later of the effective date of the plan or the date they become a participant in the WRS. Employees who first became participants before July 1, 1997, are vested upon participation. Employees who first became participants on or after July 1, 1997, are vested after being employed by the District for at least 15 years after July 1, 1997, in a position that is covered under the MBSD/MTEA teacher contract and that counts as creditable service under the WRS (but excluding periods of military service) and terminates employment with the District on or after the employee's 55<sup>th</sup> birthday.

The plan is classified as a "governmental plan" and is, therefore, exempt from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

During the year ended June 30, 2004, the District implemented a negotiated settlement of changes to the Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan (the ASC Plan). Accordingly, the MBSD adopted the restated ASC Plan at its June 2004 regular meeting. The restated ASC Plan includes amendments that transfer the Plan benefits to be paid from the ASC Plan for those covered employees who have prior MPS teaching service and are eligible to receive a benefit from the Plan. At the time of retirement, these individuals elect to receive either the Plan benefit or the ASC Plan benefit payable from the ASC Plan. The District does not anticipate any significant cost impact to the Plan as a function of the negotiated changes to the ASC Plan.

The plan issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. That report can be obtained by writing the Milwaukee Public Schools, Department of Human Resources-Benefits and Insurance Services Division, 5225 West Vliet Street, Milwaukee, WI 53208-2698.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

### (b) Annual Pension Costs and Actuarial Assumptions Used

The District's annual pension costs for the year ended June 30, 2005 and related actuarial assumptions used for the current year and related information for each plan is as follows:

	<b>Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan</b>	<b>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</b>	<b>Total</b>
Contribution rates as a percentage of payroll:			
District	6.881%	4.090%	
Plan participants	—	—	
Annual required contribution	\$ 2,715,306	12,794,314	15,509,620
Interest on net pension obligation	—	—	—
Adjustment to annual required contribution	—	—	—
Annual pension cost	2,715,306	12,794,314	15,509,620
Contributions made	2,859,780	13,579,583	16,439,363
Increase (decrease) in net pension obligation	(144,474)	(785,269)	(929,743)
Net pension obligation (prepayment), beginning of year	(2,023,526)	(9,421,731)	(11,445,257)
Net pension obligation (prepayment), end of year	\$ (2,168,000)	(10,207,000)	(12,375,000)

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers
Actuarial valuation date	July 1, 2004	July 1, 2004
Actuarial cost method	Projected unit credit	Entry age normal
Amortization method	For new balances, level payment amortization of principal and interest over expected future working lifetime. For charges and credits arising on or before July 1, 1987 and certain special balances, level payment amortization of principal and interest over 30 years.	Level payment amortization of principal and interest over 30 years
Remaining amortization period	Varies from 1 to 20 years.	Varies from 8 to 30 years.
Asset valuation method	Five-year smoothed market.	Five-year smoothed market.
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

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### Projected salary increases:

Certificated participants	1.8% plus an additional merit raise of 4.5% for each of the next six years of service for certificated participants 4.0% for classified participants.	3%
Classified participants	4.0%	N/A
Mortality	For males, according to the 1983 Group Annuity Mortality Table, and for females, according to the 1983 Group Annuity Mortality Table for males set back 6 years.	For males, according to the 1983 Group Annuity Mortality Table, and for females, according to the 1983 Group Annuity Mortality Table for males set back 6 years.

### (c) Three-Year Trend Information

The following tables of information are provided to assist users in assessing each plan's progress in accumulating sufficient assets to pay benefits when due.

#### Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan

	<u>Annual pension cost</u>	<u>% of annual pension cost contributed</u>	<u>Net pension obligation</u>
Fiscal year beginning July 1:			
2004	\$ 2,715,306	100%	\$ —
2003	2,378,932	100%	—
2002	1,206,396	100%	—

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

### Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

	<u>Annual pension cost</u>	<u>% of annual pension cost contributed</u>	<u>Net pension obligation</u>
Fiscal year beginning July 1:			
2004	\$ 12,794,314	100%	\$ —
2003	12,585,622	100%	—
2002	11,541,960	100%	—

#### (11) Post-Retirement Life and Healthcare Insurance Benefits

All post-retirement benefits are provided by the District in accordance with union contracts. District employees who take an immediate annuity at age 55 or over, with 15 or more years of service, may retain full life insurance coverage by paying the premium for such coverage until age 65. Employees taking an immediate annuity at age 55 or over, with 30 or more years of service, continue in the group life insurance program with the same coverage and with the District paying the premium in accordance with the union contract under which the employee retired. For retirees who have attained age 65, the life insurance coverage is reduced by 25% of the original coverage for each year following their 65<sup>th</sup> birthday. Coverage cannot be reduced below 25% of the original coverage. The original coverage is equal to the employee's annual earnings raised to the next even thousand dollars.

Health insurance is available on a self-paid basis to retired employees who retire at age 55 or older, with 15 years of service, by paying the premium for such coverage. In the event such employees have 70% of their maximum sick leave accumulation balance at the time of retirement, the District will pay an amount towards the health insurance premium equal to the premium for that employee at the time of retirement. Any increases in premium beyond the amount of the premium at the employee's retirement are paid by the retiree. The District's costs for retiree health insurance is recorded in current operating expenditures as paid. The District has available a self-insured indemnity/PPO health plan and a self-insured health maintenance organization. These plans are supplemental to Medicare for those retirees eligible for Medicare insurance.

Expenditures for post-retirement life and healthcare insurance benefits are financed on a pay-as-you-go basis and aggregated approximately \$27,670,310 for the year ended June 30, 2005. Approximately 5,541 retired participants are currently eligible to receive post-retirement life insurance benefits and approximately 5,325 retired participants are receiving post-retirement healthcare benefits.

For certain employees who pay an employee contribution on or after July 1, 1992, the District will pay an amount towards the health insurance premium equal to the premium less the employee contribution for that employee at the time of retirement.

## **MILWAUKEE PUBLIC SCHOOLS**

### **Notes to Basic Financial Statements**

June 30, 2005

#### **(12) Limitation on District Revenues**

Wisconsin State Statutes limit the amount of revenues that school districts may derive from general school aids and property taxes unless a higher amount is approved by referendum. This limitation does not apply to revenues needed for the payment of any general obligation debt service (including refinanced debt) authorized by either of the following:

- A resolution of the school board or by a referendum prior to August 12, 1993
- A referendum on or after August 12, 1993

For the fiscal year ended June 30, 2005, the District exceeds its revenue limitation by approximately \$346,767.

#### **(13) School Nutrition Deficit**

The school nutrition services fund had a deficit of \$5,962,801. The deficit is anticipated to be funded through future operations or operating transfers from the general fund for which the reserve has been made.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

### (14) Excess Expenditures Over Appropriations

The following individual funds had an excess of actual expenditures over appropriations for the year ended June 30, 2005.

Fund	Excess Expenditures
General Fund:	
Instructional services	\$ 24,357,733
Community Services	8,938,713
General and School building administration	17,303,099
Debt Service	11,763,551
TEACH Grant Fund	2,026,546
School Nutrition Services Fund	2,153,212

The General Fund's actual total expenditures were less than total budget appropriations.

### (15) Commitments and Contingencies

#### (a) Grants

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant program are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2005 may be impaired. In the opinion of District management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

**(b) Operating Leases**

The District leases certain computer equipment with a carrying value of approximately \$539,550. For fiscal year 2005, total operating lease expense of the District was \$548,336. The aggregate minimum legal commitments for the five fiscal years subsequent to June 30, 2005 and thereafter for the computers and property are as follows:

Fiscal years:	
2006	\$ 324,461
2007	215,089
	<hr/>
Total	\$ 539,550
	<hr/>

**(c) Construction Commitments**

The District has various active construction projects with commitments outstanding of \$56,969,000 as of June 30, 2005.

**(d) Litigation**

The board is the defendant in litigation involving discrimination, personal injury, employee grievances, and a variety of other matters, each of which are being contested by the board. The board and management of the District believe that resolution of these contingencies will not have a material effect on the District's financial position.

**16) Subsequent Events**

On July 7, 2005 the \$130,850,000 of Auction Rate Securities issued in December, 2003 to finance a portion of the unfunded actuarial accrued liability for pensions were converted to Index Linked Securities.

On September 9, 2005 the City issued \$182,000,000 of School Revenue Anticipation Notes, Series 2005 M6, for the purpose of financing MPS's general operating purposes pending receipt of state school aid payments. The maturity of this issue is September 7, 2006. Interest is payable at maturity.

On November 17, 2005 the Redevelopment Authority of the City of Milwaukee (RACM) issued \$12,415,000 of Lease Revenue bonds to finance improvements at MPS's Congress, Craig and Fratney schools. The financing requires that MPS make lease payments to RACM over the life of the bonds in an amount equal to the debt service in exchange for the use of the improved facilities.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**MILWAUKEE PUBLIC SCHOOLS**

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2005

	<b>Budgeted amounts</b>		<b>Actual (GAAP basis)</b>
	<b>Adopted</b>	<b>Revised</b>	
Revenues:			
Property tax levy	\$ 187,215,014	183,220,889	188,706,559
Other local sources	13,556,706	16,027,272	10,192,204
State aid:			
Equalization aid	570,851,088	574,542,223	574,203,739
Special classes	40,050,000	37,791,116	39,419,557
Integration	39,795,793	39,995,329	38,661,528
Other state aid	48,736,078	48,559,290	50,958,075
Federal aid:			
Education Consolidation Improvement Act	71,319,966	76,349,578	69,124,917
Other federal aid	49,127,150	65,142,510	54,584,105
Erate	1,320,000	1,320,000	3,296,638
Interest	—	—	784,655
Total revenues	<u>1,021,971,795</u>	<u>1,042,948,207</u>	<u>1,029,931,977</u>
Expenditures:			
Current operating:			
Instructional services:			
Undifferentiated curriculum	336,972,885	342,256,320	418,322,709
Regular and other curriculum	156,111,441	152,694,394	99,908,858
Special curriculum	<u>108,863,453</u>	<u>107,415,054</u>	<u>108,491,974</u>
Total instructional services	601,947,779	602,365,768	626,723,541
Community services	11,362,564	11,652,590	20,591,303
Pupil and staff services	110,729,998	110,502,954	89,185,984
General and school building administration	88,251,760	91,199,852	108,422,951
Business services	150,470,518	170,976,414	153,790,477
Debt service	—	—	11,763,551
Other	<u>81,937,415</u>	<u>85,368,651</u>	<u>1,162,108</u>
Total expenditures	<u>1,044,700,034</u>	<u>1,072,066,229</u>	<u>1,011,639,915</u>
Excess of revenues over (under) expenditures	\$ <u>(22,728,239)</u>	<u>(29,118,022)</u>	18,292,062
Fund balance—beginning of year			<u>81,808,246</u>
Fund balance—end of year			\$ <u><u>100,100,308</u></u>

**MILWAUKEE PUBLIC SCHOOLS**

Required Supplementary Information

Schedules of Funding Progress

Year ended June 30, 2005

**Milwaukee Board of School Directors Early Retirement  
Supplement and Benefit Improvement Plan**

<b>Actuarial valuation date</b>	<b>Actuarial value of assets</b>	<b>Actuarial accrued liability (AAL)</b>	<b>Total Underfunded AAL</b>	<b>Funded ratio</b>		<b>Annual covered payroll</b>	<b>Underfunded AAL as a percentage of covered payroll</b>
7/1/04	\$ 40,282,290	50,085,520	(9,803,230)	80.43	%	\$ 39,461,550	(24.84) %
7/1/03	39,808,674	49,453,070	(9,644,396)	80.50		42,014,246	(22.96)
7/1/02	40,229,422	41,356,358	(1,126,936)	97.28		37,694,546	(2.99)

**Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers**

<b>Actuarial valuation date</b>	<b>Actuarial value of assets</b>	<b>Actuarial accrued liability (AAL)</b>	<b>Total Underfunded AAL</b>	<b>Funded ratio</b>		<b>Annual covered payroll</b>	<b>Underfunded AAL as a percentage of covered payroll</b>
7/1/04	\$ 55,203,992	166,080,049	(110,876,057)	33.24	%	\$ 312,805,388	(35.45) %
7/1/03	49,570,891	157,875,834	(108,304,943)	31.40		315,368,449	(34.34)
7/1/02	44,638,240	142,261,158	(97,622,918)	31.38		303,351,587	(32.18)

## **MILWAUKEE PUBLIC SCHOOLS**

### **Notes to Required Supplementary Information**

Year ended June 30, 2005

#### **(1) Budgeting**

Annual appropriated budgets are adopted for the general, special revenue, and debt service funds by June 30<sup>th</sup> each year. Budgets are adopted for the construction fund on a project-length basis. Budgets are adopted on a modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America, except for the treatment of encumbrances (see below) and property tax revenues. Property tax revenues are budgeted based on the amount levied.

In accordance with the Wisconsin Department of Public Instruction's reporting requirements, the board exercises control over budgeted amounts at the responsibility center level within the general, special revenue, and debt service funds. The capital projects fund is controlled at the project level. During the year, budgets can be amended by approval of a majority of the members of the board.

As a management practice, the superintendent, or his or her designee, may transfer funds between functions at the department, school, or program level subject to the following criteria:

- The transaction does not exceed \$100,000
- Is not initiated by a board member
- Will not effectuate a change in policy
- Will not create a new area of activity for the District
- Does not increase authorized staffing levels
- Does not move monies between statutory funds

Board policy requires that all annual appropriations lapse at fiscal year-end except for the following: excess budgetary authority for capital project funds lapse when a specific project is completed; schools are allowed to carry over appropriations into the following year up to a maximum of 1.5% of the total revised school budget each year up to a total accumulated carryover of 3%; deficits incurred automatically reduce the subsequent year's budget appropriations; and, with school board approval, appropriations for special projects or planned purchases can be carried into the subsequent year.

**COMBINING AND INDIVIDUAL  
FUND STATEMENTS  
AND SCHEDULES**

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## **MILWAUKEE PUBLIC SCHOOLS**

### **Nonmajor Governmental Funds**

#### **Special Revenue Funds**

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. These funds include the following:

**TEACH Wisconsin Programs Fund**—This fund is used to account for proceeds from state grants that provide funding for advanced and innovative telecommunications-based projects.

**Categorically Aided Programs Fund**—This fund is used to account for proceeds from federal grants that provide emphasis on social and curriculum needs of special populations within the District.

**School Nutrition Services Fund**—This fund is used to account for the breakfast and lunch programs operated by the District for students. Revenues are provided through federal and state aids, as well as sales at schools.

#### **Debt Service Fund**

**Debt Service Fund**—This fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the governmental funds.

**MILWAUKEE PUBLIC SCHOOLS**  
Combining Balance Sheet—Nonmajor Governmental Funds  
June 30, 2005

Assets	Special Revenue				
	TEACH Wisconsin Programs	Categorically Aided Programs	School Nutrition Services	Debt Service	Total
Receivables due from other governmental units	\$ —	5,354,732	6,217,853	—	11,572,585
Due from other funds	5,015,128	1,548,425	3,076,943	—	9,640,496
Inventories	—	—	6,172	—	6,172
Total assets	<u>\$ 5,015,128</u>	<u>6,903,157</u>	<u>9,300,968</u>	<u>—</u>	<u>21,219,253</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ —	12,719	597,261	—	609,980
Due to other funds	974,125	6,890,438	14,666,508	—	22,531,071
Total liabilities	<u>974,125</u>	<u>6,903,157</u>	<u>15,263,769</u>	<u>—</u>	<u>23,141,051</u>
Fund balances (deficit):					
Reserved for inventories	—	—	6,172	—	6,172
Unreserved and undesignated	4,041,003	—	(5,968,973)	—	(1,927,970)
Total fund balances	<u>4,041,003</u>	<u>—</u>	<u>(5,962,801)</u>	<u>—</u>	<u>(1,921,798)</u>
Total liabilities and fund balances	<u>\$ 5,015,128</u>	<u>6,903,157</u>	<u>9,300,968</u>	<u>—</u>	<u>21,219,253</u>



**MILWAUKEE PUBLIC SCHOOLS**

Combining Statement of Revenues, Expenditures, and Changes in Fund  
Balances (Deficit)—Nonmajor Governmental Funds

Year ended June 30, 2005

	<u>Special Revenue</u>				
	<u>TEACH Wisconsin Programs</u>	<u>Categorically Aided Programs</u>	<u>School Nutrition Services</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:					
Property taxes	\$ —	—	—	6,469,806	6,469,806
Lunchroom sales	—	—	4,747,456	—	4,747,456
State aid—other	735,309	—	645,038	—	1,380,347
Federal aid:					
School nutrition services	—	—	24,531,108	—	24,531,108
Other federal aid	—	23,741,682	—	—	23,741,682
Total revenues	<u>735,309</u>	<u>23,741,682</u>	<u>29,923,602</u>	<u>6,469,806</u>	<u>60,870,399</u>
Expenditures:					
Instructional services—	—	—	—	—	—
special curriculum	—	4,793,878	—	—	4,793,878
Pupil and staff services	1,291,237	18,947,804	—	—	20,239,041
School nutrition services	—	—	32,006,084	—	32,006,084
Debt service:					
Principal	1,470,618	—	—	5,756,237	7,226,855
Interest	238,816	—	—	713,569	952,385
Total expenditures	<u>3,000,671</u>	<u>23,741,682</u>	<u>32,006,084</u>	<u>6,469,806</u>	<u>65,218,243</u>
Excess of revenues over (under) expenditures	(2,265,362)	—	(2,082,482)	—	(4,347,844)
Other financing sources (uses):					
Issuance of Teach Loan	<u>2,154,478</u>	—	—	—	<u>2,154,478</u>
Total other financing sources (uses), net	<u>2,154,478</u>	—	—	—	<u>2,154,478</u>
Net changes in fund balances	(110,884)	—	(2,082,482)	—	(2,193,366)
Fund balances (deficit):					
Beginning of year	<u>4,151,887</u>	—	(3,880,319)	—	<u>271,568</u>
End of year	\$ <u><u>4,041,003</u></u>	<u><u>—</u></u>	<u><u>(5,962,801)</u></u>	<u><u>—</u></u>	<u><u>(1,921,798)</u></u>

**MILWAUKEE PUBLIC SCHOOLS**

**TEACH Wisconsin Programs Fund**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual**

Year ended June 30, 2005

	<b>Budgeted amounts</b>		<b>Actual</b>
	<b><u>Adopted</u></b>	<b><u>Revised</u></b>	<b><u>(GAAP basis)</u></b>
Revenues:			
State aid:			
Other state aid	\$ —	—	735,309
Total revenues	<u>—</u>	<u>—</u>	<u>735,309</u>
Expenditures:			
Current operating:			
Pupil and staff services		—	1,291,237
Debt service	974,125	974,125	1,709,434
Total expenditures	<u>974,125</u>	<u>974,125</u>	<u>3,000,671</u>
Excess of revenues over (under) expenditures	<u>(974,125)</u>	<u>(974,125)</u>	<u>(2,265,362)</u>
Other financing sources:			
Issuance of TEACH loan	—	1,512,935	2,154,478
Total other financing sources	<u>—</u>	<u>1,512,935</u>	<u>2,154,478</u>
Net change in fund balance	\$ <u>(974,125)</u>	<u>538,810</u>	(110,884)
Fund balance—beginning of year			<u>4,151,887</u>
Fund balance—end of year			\$ <u><u>4,041,003</u></u>

# MILWAUKEE PUBLIC SCHOOLS

## Categorically Aided Programs Fund

### Schedule of Revenues, Expenditures, and Changes in Fund Balance— Budget and Actual

Year ended June 30, 2005

	<b>Budgeted amounts</b>		<b>Actual</b>
	<b><u>Adopted</u></b>	<b><u>Revised</u></b>	<b><u>(GAAP basis)</u></b>
Revenues:			
Federal aid:			
Other federal aid	\$ <u>27,205,510</u>	<u>27,586,473</u>	<u>23,741,682</u>
Total revenues	<u>27,205,510</u>	<u>27,586,473</u>	<u>23,741,682</u>
Expenditures:			
Current operating:			
Special curriculum	<u>5,558,393</u>	<u>6,808,568</u>	<u>4,793,878</u>
Pupil and staff services	<u>21,647,117</u>	<u>20,777,905</u>	<u>18,947,804</u>
Total expenditures	<u>27,205,510</u>	<u>27,586,473</u>	<u>23,741,682</u>
Net change in fund balance	\$ <u>—</u>	<u>—</u>	<u>—</u>
Fund balance—beginning of year			<u>—</u>
Fund balance—end of year			\$ <u>—</u>

# MILWAUKEE PUBLIC SCHOOLS

## School Nutrition Services Fund

### Schedule of Revenues, Expenditures, and Changes in Fund Balance— Budget and Actual

Year ended June 30, 2005

	<b>Budgeted amounts</b>		<b>Actual</b>
	<b>Adopted</b>	<b>Revised</b>	<b>(GAAP basis)</b>
Revenues:			
Lunchroom sales	\$ 4,789,413	4,789,413	4,747,456
State aid:			
School nutrition aid	678,115	678,115	645,038
Federal aid:			
School nutrition aid	24,385,344	24,385,344	24,531,108
Total revenues	<u>29,852,872</u>	<u>29,852,872</u>	<u>29,923,602</u>
Expenditures:			
Current operating:			
School nutrition services	<u>29,852,872</u>	<u>29,852,872</u>	<u>32,006,084</u>
Total expenditures	<u>29,852,872</u>	<u>29,852,872</u>	<u>32,006,084</u>
Net change in fund deficit	\$ <u>—</u>	<u>—</u>	(2,082,482)
Fund deficit—beginning of year			<u>(3,880,319)</u>
Fund deficit—end of year			\$ <u><u>(5,962,801)</u></u>

# MILWAUKEE PUBLIC SCHOOLS

## Debt Service Fund

### Schedule of Revenues, Expenditures, and Changes in Fund Balance— Budget and Actual

Year ended June 30, 2005

	<b>Budgeted amounts</b>		<b>Actual</b>
	<b>Adopted</b>	<b>Revised</b>	<b>(GAAP basis)</b>
Revenues:			
Property taxes	\$ 6,469,806	6,469,806	6,469,806
Total revenues	6,469,806	6,469,806	6,469,806
Expenditures:			
Current operating:			
Debt service	6,469,806	6,469,806	6,469,806
Total expenditures	6,469,806	6,469,806	6,469,806
Excess of revenues over (under) expenditures	\$ —	—	—
Other financing sources:			
Refunding bonds issued			—
Payment to refunded bond			—
Total other financing sources			—
Net change in fund balance			—
Fund balance—beginning of year			—
Fund balance—end of year			\$ —

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## MILWAUKEE PUBLIC SCHOOLS

### Fiduciary Funds

#### **Pension Trust Funds**

The pension trust funds are used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans. These funds include the following:

**Milwaukee Board of School Directors Early Retirement Supplemental and Benefit Improvement Plan**—This fund is used to account for the accumulation of resources for pension benefit payments for early retirement plans maintained by the District for qualified administrators.

**Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers**—This fund is used to account for the accumulation of resources for pension benefit payments for early retirement plans maintained by the District for qualified teachers.

#### **Agency Fund**

The agency fund collects and disburses cash and investments for student organizations and activities through district schools that act in the capacity of an agent of such funds.

# MILWAUKEE PUBLIC SCHOOLS

## Combining Statement of Net Assets—Pension Trust Funds

June 30, 2005

	<b>Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan</b>	<b>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</b>	<b>Total</b>
<b>Assets</b>			
Investments	\$ 41,697,481	72,260,834	113,958,315
Receivables	108,137	36,550	144,687
Total assets	<u>41,805,618</u>	<u>72,297,384</u>	<u>114,103,002</u>
<b>Liabilities</b>			
Liabilities:			
Accounts payable and accrued expenses	<u>344,973</u>	<u>896,341</u>	<u>1,241,314</u>
Total liabilities	<u>344,973</u>	<u>896,341</u>	<u>1,241,314</u>
<b>Net Assets</b>			
Held in trust for supplemental pension benefits	<u>\$ 41,460,645</u>	<u>71,401,043</u>	<u>112,861,688</u>



# MILWAUKEE PUBLIC SCHOOLS

Combining Statement of Changes in Net Assets—Pension Trust Funds

Year ended June 30, 2005

	<b>Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan</b>	<b>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</b>	<b>Total</b>
Additions:			
Employer contributions	\$ 2,862,581	13,597,310	16,459,891
Participants contributions	1,001	—	1,001
Investment income, net of expenses	3,283,567	6,027,999	9,311,566
Total additions	6,147,149	19,625,309	25,772,458
Deductions:			
Benefits paid to participants or beneficiaries	4,229,171	10,477,118	14,706,289
Distribution of participant contribution accounts	1,163,632	—	1,163,632
Administrative expenses	66,952	102,181	169,133
Total deductions	5,459,755	10,579,299	16,039,054
Changes in net assets	687,394	9,046,010	9,733,404
Net assets—Beginning of Year	40,773,251	62,355,033	103,128,284
Net assets—Ending of Year	\$ 41,460,645	71,401,043	112,861,688

**MILWAUKEE PUBLIC SCHOOLS**

Agency Fund

Schedule of Changes in Assets and Liabilities

Year ended June 30, 2005

		<b>Balance</b>			<b>Balance</b>
<b>Assets</b>		<b>July 1, 2004</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2005</b>
Cash and cash equivalents	\$	4,854,062	19,664,116	(19,495,499)	5,022,679
Total assets	\$	<u>4,854,062</u>	<u>19,664,116</u>	<u>(19,495,499)</u>	<u>5,022,679</u>
<b>Liabilities</b>					
Liabilities:					
Due to student organizations	\$	4,854,062	19,664,116	(19,495,499)	5,022,679
Total liabilities	\$	<u>4,854,062</u>	<u>19,664,116</u>	<u>(19,495,499)</u>	<u>5,022,679</u>

## **APPENDIX B**

### **Draft Form of Legal Opinion**

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August 30, 2006

The City Comptroller and the Commissioners  
of the Public Debt of the City of Milwaukee,  
Wisconsin

We have examined a record of proceedings relating to the issuance of \$175,000,000 aggregate principal amount of School Revenue Anticipation Notes, Series 2006 M7 (the "Notes") of the City of Milwaukee (the "City"), a municipal corporation of the State of Wisconsin. The Notes are authorized and issued pursuant to the provisions of Chapter 65 and Chapter 67 of the Wisconsin Statutes and the City Charter and by virtue of a resolution passed by the Common Council of the City on July 12, 2006.

The Notes constitute an issue of "revenue anticipation notes" under Section 67.12(1) of the Wisconsin Statutes, are issuable in fully registered form in the denominations of \$5,000 or any integral multiple thereof, and are dated as of August 30, 2006. The Notes mature (without option of prior redemption) on August 30, 2007 and bear interest from their date at the rate of four and one-half percentum (4.50%) per annum, payable at maturity.

In our opinion, the Notes are valid and legally binding limited obligations of the City; payment of the principal of the Notes is secured by an irrevocable pledge of all School Operations Fund revenues for the 2006-2007 fiscal year that are due and not yet paid to the City and which are not otherwise pledged or applied through June 30, 2007; and payment of the interest on the Notes is secured by a pledge of surplus revenues of the Debt Service Fund of the City. The Notes are not general obligations of the City and neither the full faith and credit nor the general taxing power of the City is pledged as security for the payment of the principal of or interest on the Notes. The enforceability of rights or remedies with respect to the Notes may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and remedies heretofore or hereafter enacted.

We are further of the opinion that, under existing law, interest on the Notes is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "Code"), we are of the opinion that interest on the Notes will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. We are further of the opinion that the Notes are not "private activity bonds" within the meaning of Section 141(a) of the Code; accordingly, interest on the Notes is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. Interest on the Notes, however, is includable in earnings and profits of a corporation and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for Federal income tax purposes of interest on the Notes. These requirements relate to the use and investment of the proceeds of the Notes, the payment of certain amounts to the United States, the security and source of payment of the Notes and the use of the property financed with the proceeds of the Notes. The City has covenanted to comply with these requirements.

Interest on the Notes is not exempt from Wisconsin income taxes.

Respectfully submitted,

LG/be

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## **APPENDIX C**

### **Form of Continuing Disclosure Certificate**

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## **MASTER CONTINUING DISCLOSURE CERTIFICATE**

This Master Continuing Disclosure Certificate (the "Certificate") dated as of March 1, 2004 is executed and delivered in connection with the issuance, from time to time, of municipal securities of the City of Milwaukee, Wisconsin (the "City") and pursuant to resolution 031384 duly adopted by the Common Council of the City on February 10, 2004 (the "Resolution"). Capitalized terms used in this Certificate shall have the respective meanings specified above or in Article I hereof. Pursuant to the Resolution, the City agrees as follows:

### **ARTICLE I - Definitions**

Section 1.1. Definitions. The following capitalized terms used in this Certificate shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) the financial information and operating data as described in an Addendum Describing Annual Report (Exhibit B); and (ii) information regarding amendments to this Certificate required pursuant to Sections 4.2(c) and (d) of this Certificate.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. Where such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a new Addendum Describing Annual Report shall be executed describing the information to be provided.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the City, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP for governmental units as prescribed by GASB; provided, however, that the City may from time to time, if required by federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification, other than modifications prescribed by GASB, shall be provided to each NRMSIR and the SID, and shall include a reference to the specific federal or State law or regulation describing such accounting basis.

(3) "Counsel" means a nationally recognized bond counsel or counsel expert in federal securities laws, acceptable to the City.

(4) "GAAP" means generally accepted accounting principles for governmental units as prescribed by GASB.

(5) "GASB" means the Governmental Accounting Standards Board.

(6) "Material Event" means any of the following events with respect to the Offered Obligations, whether relating to the City or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Offered Obligations;
- (vii) modifications to rights of Security Holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Offered Obligations; and
- (xi) rating changes.

(7) "Material Event Notice" means notice of a Material Event.

(8) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

(9) "NRMSIR" means, at any time, a then existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs and filing information relating to such NRMSIR's are set forth in the Addendum Describing NRMSIRs (Exhibit A) as may be revised from time to time.

(10) "Offered Obligations" means an issue of municipal securities of the City in connection with which the City has executed and delivered a Supplemental Certificate (Exhibit C).

(11) "Official Statement" means the "final official statement" as defined in paragraph (f)(3) of the Rule.

(12) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any amendments and official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

(13) "SEC" means the United States Securities and Exchange Commission.

(14) "Security Holders" means the holders from time to time of Offered Obligations.

(15) "SID" means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Certificate, there is no SID.

(16) "State" means the State of Wisconsin.

(17) "Unaudited Financial Statements" means the same as Audited Financial Statements, except the same shall not have been unaudited.

(18) "Underwriters" means the underwriter(s) purchasing an issue of Offered Obligations.

## ARTICLE II - The Undertaking

Section 2.1. Purpose. This Certificate shall apply to Offered Obligations, and shall constitute a written undertaking for the benefit of the Security Holders, and is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information. (a) The City shall provide Annual Financial Information for the City with respect to each fiscal year of the City, by no later than nine months after the end of the respective fiscal year, to each NRMSIR and the SID.

(b) The City shall provide, in a timely manner, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the dates required by Section 2.2(a) hereof, the City shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

Section 2.4. Notices of Material Events. (a) If a Material Event occurs, the City shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR and (ii) the SID.

(b) Upon any legal defeasance of an Offered Obligation, the City shall provide notice of such defeasance to (i) each NRMSIR or the MSRB and (ii) the SID, which notice shall state whether the Offered Obligations to be defeased have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 2.5. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and SEC Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that under some circumstances compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City under such laws.

Section 2.6. Additional Information. Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or Material Event Notice, in addition to that which is required by this Certificate. If the City chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Financial Information or Material Event Notice.

Section 2.7. No Previous Non-Compliance. The City represents that since July 3, 1995, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

## ARTICLE III - Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the City provides Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID, or (2) filed with the SEC, or (ii) if such a document is an Official Statement, available from the MSRB.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Material Event Notices. Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Offered Obligations.

Section 3.4. Transmission of Information and Notices. Unless otherwise required by law and, in the City's sole determination, subject to technical and economic feasibility, the City shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the City's information and notices.

## ARTICLE IV - Termination, Amendment and Enforcement

Section 4.1. Termination. (a) The City's obligations under this Certificate with respect to an Offered Obligation shall terminate upon legal defeasance, prior redemption or payment in full of the Offered Obligation.

(b) This Certificate or any provision hereof, shall be null and void in the event that the City (1) delivers to the City an opinion of Counsel, addressed to the City, to the effect that those portions of the Rule which require the provisions of this Certificate or any of such provisions, do not or no longer apply to the Offered Obligations, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID.

Section 4.2. Amendment. (a) This Certificate may be amended, by written certificate of the Comptroller, without the consent of the Security Holders if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or the type of business conducted thereby; (2) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the City shall have received an opinion of Counsel addressed to the City, to the same effect as set forth in clause (2) above and further to the effect that the amendment does not materially impair the interests of the Security Holders; and (4) the City delivers copies of such opinion and amendment to each NRMSIR and the SID.

(b) In addition to subsection (a) above, this Certificate may be amended and any provision of this Certificate may be waived, without the consent of the Security Holders, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Certificate; (2) the City shall have received an opinion of Counsel to the effect that performance by the City under this Certificate as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule; and (3) the City shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Certificate results in a change in the types of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, other than changes prescribed by GASB, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of any such amendment shall be provided by the City to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Certificate shall constitute a contract with and inure solely to the benefit of the Security Holders. Beneficial owners of Offered Obligations shall be third-party beneficiaries of this Certificate.

(b) Except as provided in this subparagraph (b), the provisions of this Certificate shall create no rights in any person or entity. The obligations of the City to comply with the provisions of this Certificate shall be enforceable by the Security Holders, including beneficial owners of Offered Obligations. The Security Holders' rights to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under this Certificate and the Resolution. In consideration of the third-party beneficiary status of beneficial owners of Offered Obligations pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be Security Holders for purposes of this subsection (b).

(c) Any failure by the City to perform in accordance with this Certificate shall not constitute a default under the Resolution and any rights and remedies provided by the Resolution upon the occurrence of a default shall not apply to any such failure.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, I have hereunto executed this Certificate this 1st day of March, 2004.

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller

## **ADDENDUM DESCRIBING NRMSIRs**

This Addendum Describing NRMSIRs (the "Addendum") is delivered by the City of Milwaukee, Wisconsin (the "Issuer") pursuant to the Master Continuing Disclosure Certificate, executed and delivered by the Issuer and dated March 1, 2004. This Addendum describes the filing information relating to the Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission.

### **Repositories and Contact Information**

Pursuant to the Securities and Exchange Commission interpretive letter to the Texas Municipal Advisory Council (the "MAC") dated September 7, 2004, the Issuer elects to transmit filings to the MAC as provided at <http://www.disclosureusa.org> for submission to the NRMSIRs and any applicable SID.

Disclosure USA  
[www.disclosureusa.org](http://www.disclosureusa.org)

IN WITNESS WHEREOF, I have hereunto executed this Addendum this 1<sup>st</sup> day of March, 2005.

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller

**ADDENDUM DESCRIBING ANNUAL REPORT  
FOR SHORT-TERM OBLIGATIONS**

This Addendum Describing Annual Report for Short-Term Obligations (the "Addendum") is delivered by the City of Milwaukee, Wisconsin (the "Issuer") pursuant to the Master Continuing Disclosure Certificate (the "Certificate"), executed and delivered by the Issuer and dated March 1, 2004. This Addendum describes the content of Annual Financial Information prepared with respect to obligations maturing within 18 months of the date of issue. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Certificate.

Content of Annual Financial Information for Issuer:

None. (Exception for securities with a stated maturity of 18 months or less).

IN WITNESS WHEREOF, I have hereunto executed this Addendum this 1<sup>st</sup> day of March, 2004.

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller

## **SUPPLEMENTAL CERTIFICATE**

This Supplemental Certificate is executed and delivered by the City of Milwaukee, Wisconsin (the "Issuer") to supplement the Master Continuing Disclosure Certificate (the "Certificate"), executed and delivered by the Issuer and dated March 1, 2004. Pursuant to the provisions of the Certificate, the Issuer hereby determines that the Certificate and the Addendum Describing Annual Report, as described below, shall apply to the following issue of obligations:

Name of Obligations:

\$175,000,000 School Revenue Anticipation Notes, Series 2006 M7

Addendum Describing Annual Report:

ADDENDUM DESCRIBING ANNUAL REPORT  
FOR SHORT-TERM OBLIGATIONS

Date of Issue(s):

August 30, 2006

IN WITNESS WHEREOF, I have caused this Supplemental Certificate to be executed this 30<sup>th</sup> day of August, 2006.

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller